

SILVER BELL INDUSTRIES, INC.

**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS
TO BE HELD NOVEMBER 27, 1978.**

NOTICE IS HEREBY GIVEN that a Special Meeting of Shareholders of Silver Bell Industries, Inc. ("Silver Bell"), a Colorado corporation, will be held at the Forum Room, United Bank of Denver, on November 27, 1978 at 10:00 a.m., local time, for the following purposes:

1. To consider and vote upon a proposal calling for approval and adoption of the Agreement and Plan of Reorganization by and among Silver Bell, Union Oil Company of California, a California corporation ("Union"), and Minerals Exploration Company, a California corporation and wholly-owned subsidiary of Union, ("Minerals"), a copy of which is attached as Annex III to the Proxy Statement accompanying this Notice, including approval and adoption of (a) the sale of substantially all of the assets, except for cash on hand, of Silver Bell to Minerals in exchange for 418,095 shares of Union's Common Stock and (b) winding up, dissolution and liquidation of Silver Bell under a Plan of Liquidation, a copy of which is attached as Annex I to the Joint Proxy Statement accompanying this Notice, with distribution of the assets of Silver Bell (principally Union Common Stock) as set forth in the Joint Proxy Statement.

2. To transact such other business as may properly come before the Meeting, or at any adjournment thereof.

Shareholders of record at the close of business on October 16, 1978 shall be entitled to notice of and to vote at the Meeting.

By Order of the Board of Directors

Eugene H. Sanders
President

Dated: October 25, 1978.

IMPORTANT

IF YOU DO NOT EXPECT TO ATTEND THE MEETING, PLEASE SIGN, DATE AND MAIL PROMPTLY THE ENCLOSED PROXY IN THE ENCLOSED STAMPED, ADDRESSED ENVELOPE IN ORDER THAT A QUORUM MAY BE PRESENT AT THE MEETING AND THAT YOUR SHARES MAY BE VOTED FOR YOU.

UNO/SB 2206

SILVER BELL INDUSTRIES, INC.
THE MANCOS CORPORATION
SPECIAL MEETINGS OF SHAREHOLDERS
1978
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SUMMARY OF JOINT PROXY STATEMENT

Introduction:

Minerals Exploration Company, a California corporation and a wholly-owned subsidiary of Union Oil Company of California ("Minerals" and "Union", respectively) has agreed to acquire substantially all of the assets of Silver Bell Industries, Inc., a Colorado corporation ("Silver Bell"), for 418,095 shares of Union's Common Stock. Minerals has also agreed to acquire substantially all of the assets of The Mancos Corporation, a Colorado corporation ("Mancos"), for 6,905 shares of Union's Common Stock. This Proxy Statement will be used jointly by Silver Bell and Mancos in connection with both acquisitions. This Proxy Statement constitutes a Prospectus of Union.

Acquisition of Silver Bell

Purpose of the Silver Bell Meeting:

The shareholders of Silver Bell are being asked to consider and approve an Agreement and Plan of Reorganization among Silver Bell, Union and Minerals which provides for the acquisition of substantially all of the assets, except for cash on hand, in banks (including certificates of deposit) and on deposit with third parties (the "Assets"), of Silver Bell by Minerals in exchange for 418,095 shares of Union's Common Stock, par value \$8 $\frac{1}{3}$ per share, ("Union Common Stock") (the "Silver Bell Acquisition"). Neither Union nor Minerals will assume any obligations of Silver Bell except for obligations to Minerals in connection with the Sweetwater Project and a promissory note in the principal amount of \$50,000, plus accrued interest, payable to Mancos. Silver Bell will continue to be liable to satisfy any other obligations existing at the completion of the Silver Bell Acquisition. Aside from the described obligations and the obligations which will arise in connection with the completion of the sale-of-assets transaction described herein (See EXPENSES on Page 16 hereof), Silver Bell has no known obligations. Silver Bell will pay all such current obligations prior to or in the course of liquidation. See BUSINESS AND PROPERTIES OF SILVER BELL—The Sweetwater Project.

After the transfer of the Assets to Minerals is completed, it is contemplated that the shares of Union Common Stock issued to Silver Bell as consideration for such transfer (except to the extent that sales of such shares may be made to provide cash to pay persons entitled to fractional shares, to pay expenses of Silver Bell and to make payments to any dissenting Silver Bell shareholders) will be distributed to the shareholders of Silver Bell in complete liquidation of Silver Bell according to their respective interests and that Silver Bell will then be dissolved pursuant to applicable law. Based upon estimates of Silver Bell's management of the expenses of the Acquisition and the available cash and liabilities at the time the Acquisition is completed, and assuming that there are no dissenting shareholders, approximately 414,085 shares of Union Common Stock will be available for distribution to Silver Bell's shareholders either in shares or in cash representing payment for fractional shares and a Silver Bell shareholder will receive approximately .054 shares of Union Common Stock for each Silver Bell share he holds. Such exchange ratio is subject to change if any of the foregoing assumptions prove incorrect. See PURPOSE OF THE SILVER BELL MEETING at Page 4, THE SILVER BELL ACQUISITION — Distribution of Union Common Stock; Fractional Shares at Page 7, and EXPENSES at Page 16.

Union's Common Stock is listed on the New York, Midwest and Pacific Stock Exchanges. Recent market prices of Silver Bell and Union Common Stock are set forth under COMPARATIVE MARKET PRICES OF UNION AND SILVER BELL COMMON STOCK at Page 20. Mancos' Common Shares are not publicly traded.

Vote Required for Approval; Dissenting Stockholders:

Approval of the sale of substantially all of Silver Bell's assets and the dissolution of Silver Bell will require the affirmative vote of holders of not less than two-thirds of the outstanding shares of Silver Bell Common Stock entitled to vote at the meeting.

Under the Colorado Corporation Code, shareholders who object to the proposed sale of substantially all of Silver Bell's assets and the dissolution of Silver Bell may, upon compliance with certain legal requirements, receive the fair value of their shares in cash. See **RIGHTS OF DISSENTING SHAREHOLDERS OF SILVER BELL AND MANCOS** at Page 17. Should holders of 5% or more of Silver Bell's shares so act, however, Silver Bell will not be obligated to complete the transfer of its assets and, if the transfer is not effected, no cash payments will be made. See **THE SILVER BELL ACQUISITION — Certain Terms of the Silver Bell Agreement — Amendments, Conditions and Termination Provisions** at Page 10.

Federal Income Taxes:

Silver Bell has received the opinion of its tax counsel, Reardon, Reardon and Reardon, a professional corporation, Denver, Colorado to the effect that the acquisition of substantially all of Silver Bell's assets for shares of Union Common Stock will constitute a tax-free reorganization and that holders of Silver Bell Common Stock will not incur taxable gain or loss as a result of the transactions, except to the extent of cash received in lieu of fractional shares or for dissenting shares. See **THE SILVER BELL ACQUISITION — Federal Income Tax Consequences** at Page 7.

Acquisition of The Mancos Corporation

Purpose of the Mancos Meeting:

The shareholders of Mancos are being asked to consider and approve an Agreement and Plan of Reorganization among Mancos, Union and Minerals which provides for the acquisition of substantially all of the assets, except for cash on hand, in banks and on deposit with third parties (the "Mancos Assets"), of Mancos by Minerals in exchange for 6,905 shares of Union's Common Stock, par value \$8 $\frac{1}{3}$ per share, ("Union Common Stock") (the "Mancos Acquisition"). Neither Union nor Minerals will assume any obligations of Mancos, which will continue to be liable to satisfy any obligations existing at the completion of the Mancos Acquisition. Aside from the described obligations and the obligations which will arise in connection with the completion of the sale-of-assets transaction described herein (See **EXPENSES** on Page 16 hereof), Mancos has no known obligations. Mancos will pay all such current obligations prior to or in the course of liquidation.

After the transfer of the Mancos Assets to Minerals is completed, it is contemplated that the shares of Union Common Stock issued to Mancos as consideration for such transfer (except to the extent that sales of such shares may be made to provide cash to pay persons entitled to fractional shares, to pay expenses of Mancos and to make payments to any dissenting Mancos shareholders) will be distributed to the shareholders of Mancos in complete liquidation of Mancos according to their respective interests and that Mancos will then be dissolved pursuant to applicable law. Based upon estimates of Mancos' management of the expenses of the Mancos Acquisition and the available cash at the time the Mancos Acquisition is completed, and assuming that there are no dissenting shareholders and that 150 Union shares will be sold to provide cash to pay persons entitled to fractional shares, approximately 6,755 shares of Union Common Stock will remain for distribution to Mancos' shareholders upon dissolution of Mancos and a Mancos shareholder will receive approximately .0039 shares of Union Common Stock for each Mancos common share he holds. Such exchange ratio is subject to change if any of the foregoing assumptions prove incorrect. See **PURPOSE OF THE MANCOS MEETING** at Page 11, **THE MANCOS ACQUISITION — Distribution of Union Common Stock; Fractional Shares** at Page 13, and **EXPENSES** at Page 16.

Union's Common Stock is listed on the New York, Midwest and Pacific Stock Exchanges. Recent market prices of Union Common Stock are set forth under **COMPARATIVE MARKET PRICES OF UNION AND SILVER BELL COMMON STOCK** at Page 20. Mancos' Common Shares are not publicly traded.

Vote Required for Approval; Dissenting Stockholders:

Approval of the sale of substantially all of Mancos' assets and dissolution of Mancos will require the affirmative vote of holders of not less than two-thirds of the outstanding shares of Mancos Common Stock entitled to vote at the meeting.

Under the Colorado Corporation Code, shareholders who object to the proposed sale of substantially all of Mancos' assets and the dissolution of Mancos may, upon compliance with certain legal requirements, receive the fair value of their shares in cash. See **RIGHTS OF DISSENTING SHAREHOLDERS OF SILVER BELL AND MANCOS** at Page 17. Should holders of 20% or more of Mancos' shares so act, however, Mancos will not be obligated to complete the transfer of its assets and, if the transfer is not effected, no cash payments will be made. See **THE MANCOS ACQUISITION — Certain Terms of the Mancos Agreement — Amendments, Conditions and Termination Provisions** at Page 15.

Federal Income Taxes:

Mancos has received the opinion of tax counsel, Reardon, Reardon and Reardon, a professional corporation, Denver, Colorado to the effect that the acquisition of substantially all of Mancos' assets for shares of Union Common Stock will constitute a tax-free reorganization and that holders of Mancos Common Stock will not incur taxable gain or loss as a result of the transactions, except to the extent of cash received in lieu of fractional shares or for dissenting shares. See **THE MANCOS ACQUISITION — Federal Income Tax Consequences** at Page 13.

Business of Union

Union Oil Company of California, incorporated in California on October 17, 1890, is engaged principally in petroleum, chemical and mineral operations. Petroleum operations involve the exploration, production, transportation and sale of crude oil, natural gas and geothermal resources; and the manufacture, transportation and marketing of petroleum products. Chemical operations involve the manufacture, purchase and marketing of chemicals for industrial and agricultural uses. Mineral operations primarily involve the exploration, development, mining, processing and marketing of molybdenum, columbium, rare earths and uranium. Other operations include real estate development and sales. All phases of business in which Union engages are highly competitive. Union's business will continue to be affected not only by such competition, but by general economic developments, governmental regulations, labor conditions and technological and international developments. See **BUSINESS AND PROPERTIES OF UNION**. Union's Statement of Consolidated Earnings is at Page 24. Union's Consolidated Financial Statements begin at Page 63.

Business of Silver Bell

Silver Bell's principal asset consists of a 35% interest in certain mining claims and leases and the production therefrom (subject to obligations for its proportionate share of costs of development and production) which are subject to an Operating Agreement between Silver Bell and Minerals. Minerals holds a 65% interest in such properties and production and is obligated for 65% of the costs. Minerals has advanced Silver Bell's share of the costs relating to the exploration and development of the Sweetwater Project. Such costs, which approximate \$12,000,000 to date, including interest of 10% per annum on unpaid advances, are required to be repaid out of 90% of Silver Bell's 35% share of production from the Sweetwater Project, if production commences. See **BUSINESS AND PROPERTIES OF SILVER BELL — The Sweetwater Project** at Page 47.

Business of Mancos

Mancos holds patented and unpatented mining claims, together with four buildings and mill equipment in Montezuma County, Colorado. Mancos has not actively engaged in exploration of its properties but has confined its activities to performing annual assessment labor on unpatented mining claims.

SILVER BELL INDUSTRIES, INC.

THE MANCOS CORPORATION

JOINT PROXY STATEMENT

This Proxy Statement is being used jointly as a Proxy Statement of Silver Bell Industries, Inc. and of The Mancos Corporation and also constitutes a Prospectus of Union Oil Company of California.

Proxies in the form accompanying this Joint Proxy Statement are being mailed to shareholders of SILVER BELL INDUSTRIES, INC., a Colorado corporation ("Silver Bell") who will be solicited by the Management of Silver Bell or to shareholders of THE MANCOS CORPORATION, a Colorado corporation ("Mancos") who will be solicited by the Management of Mancos.

The proxies solicited by the Management of Silver Bell will be used at a Special Meeting of Shareholders to be held at the Forum Room, United Bank of Denver, 1740 Broadway, Denver, Colorado on November 27, 1978, at 10:00 a.m., local time, or at any adjournment thereof, at which shareholders of record at the close of business on October 16, 1978 (the "Record Date") shall be entitled to vote.

The proxies solicited by the Management of Mancos will be used at a Special Meeting of Shareholders to be held at the Forum Room, United Bank of Denver, 1740 Broadway, Denver, Colorado on November 27, 1978, at 2:00 p.m., local time, or at any adjournment thereof, at which shareholders of record at the close of business on October 16, 1978 (the "Record Date") shall be entitled to vote.

This Joint Proxy Statement and the accompanying form of proxy are being sent to Silver Bell's shareholders on or about October 25, 1978, and to Mancos' shareholders on or about October 26, 1978, and will be sent to all persons who become shareholders of record of Common Stock on or prior to the Record Date.

You are requested to complete, date and sign the accompanying proxy and return it promptly in the enclosed envelope. Proxies will be voted in accordance with the instructions contained therein. If instructions are not given, proxies will be voted in favor of the proposal described herein. Each proxy executed and returned by a shareholder may be revoked at any time before it is voted by giving written notice of such revocation to the Secretary. Revocation is effective only upon receipt of such notice by the Secretary.

As of July 31, 1978 there were outstanding 7,568,388 shares of Silver Bell Common Stock, \$0.25 par value. As of July 15, 1978, there were outstanding 1,765,219 shares of Mancos Common Stock, \$0.01 par value. Approval of the proposal described below will require the affirmative vote of two-thirds of the shares of Common Stock of each corporation outstanding on the Record Date.

PURPOSE OF THE SILVER BELL MEETING

The Special Meeting of Shareholders of Silver Bell has been called to consider and vote upon a proposal to approve and adopt the Agreement and Plan of Reorganization by and among Silver Bell, Union Oil Company of California, a California corporation ("Union") and Minerals Exploration Company, a California corporation and a wholly-owned subsidiary of Union, ("Minerals"). Minerals will acquire substantially all of the assets, except for cash on hand, in banks (including certificates of deposit) and on deposit with third parties of Silver Bell (the "Silver Bell Assets") in exchange for 418,095 shares of Union's Common Stock, par value \$8 $\frac{1}{3}$ per share ("Union Common Stock"). Union and Minerals will not assume any obligations of Silver Bell except for Silver Bell's obligation to Minerals to repay out of Silver Bell's 35% interest in the Sweetwater Project Silver Bell's share of

operating costs advanced by Minerals, which advances approximate \$12,000,000 to date, Silver Bell's obligation to repay to Minerals a promissory note in the principal amount of \$12,070, plus accrued interest and a promissory note in the principal amount of \$50,000, plus accrued interest, payable to The Mancos Corporation ("Mancos"). Silver Bell will continue to be liable for the satisfaction of any other obligations in existence at the completion of the Silver Bell Acquisition. Aside from the described obligations and the obligations which will arise in connection with the completion of the sale-of-assets transaction described herein (See EXPENSES on Page 16 hereof), Silver Bell has no known obligations. Silver Bell will pay all such current obligations prior to or in the course of liquidation. See BUSINESS AND PROPERTIES OF SILVER BELL — The Sweetwater Project at Page 47.

After the transfer of assets contemplated by the Agreement and Plan of Reorganization (the "Silver Bell Agreement") is completed, it is contemplated that the shares of Union Common Stock issued to Silver Bell as consideration for such transfer (except to the extent that sales of such shares may be made to provide cash to pay persons entitled to fractional shares, to pay expenses of Silver Bell and to make payments to any dissenting Silver Bell shareholders) will be distributed to the shareholders of Silver Bell in complete liquidation of Silver Bell according to their respective interests and that Silver Bell will then be dissolved pursuant to applicable law and the Plan of Liquidation, a copy of which is attached hereto as Annex I.

The Silver Bell Agreement is attached hereto as Annex III. The statements contained in this Joint Proxy Statement with respect to the terms of the Silver Bell Agreement are subject to the more complete information set forth in such Annex and are qualified in their entirety by reference thereto.

VOTE REQUIRED

Approval of the acquisition by Minerals of the Silver Bell Assets (the "Silver Bell Acquisition") and the dissolution of Silver Bell will require the affirmative vote of the holders of not less than two-thirds of the outstanding shares of Silver Bell Common Stock entitled to vote at the meeting.

The members of the Silver Bell Board of Directors have indicated to Silver Bell that they intend to vote all shares of Silver Bell Common Stock owned by them in favor of the Silver Bell Acquisition; as of July 15, 1978, such shares constituted 8.82% of the total number of outstanding shares of Silver Bell.

Even if the Silver Bell Acquisition is approved by the Silver Bell shareholders, its completion will be subject to a number of conditions. See THE SILVER BELL ACQUISITION — Certain Terms of the Silver Bell Agreement — Amendments, Conditions and Termination Provisions at Page 10.

THE SILVER BELL ACQUISITION

Parties:

Union is a California corporation with its principal executive offices at Union Oil Center, Los Angeles, California 90017 (telephone [213] 486-7600). Union is engaged principally in petroleum, chemical and mineral operations. Petroleum operations involve the exploration, production, transportation and sale of crude oil, natural gas and geothermal resources; and the manufacture, transportation and marketing of petroleum products. Chemical operations involve the manufacture, purchase and marketing of chemicals for industrial and agricultural uses. Mineral operations primarily involve the exploration, development, mining, processing and marketing of molybdenum, columbium, rare earths and uranium. Other operations include real estate development and sales. All phases of business in which Union engages are highly competitive. Union's business will continue to be affected not only by such competition, but by general economic developments, governmental regulations, labor conditions and technological and international developments. See BUSINESS AND PROPERTIES OF UNION at Page 27.

Silver Bell is primarily engaged in the acquisition of interests in and to mineral properties and conducts exploration thereon directly or through partners, lessees, purchasers, and optionees for many types of minerals. Silver Bell's principal asset consists of a 35% interest in certain mining claims and the production therefrom (subject to the obligation to pay its proportionate share of the costs of development and production) which are subject to an Operating Agreement with Minerals. Minerals holds the remaining 65% interest in such properties. See BUSINESS AND PROPERTIES OF SILVER BELL — The Sweetwater Project at Page 47 and The Operating Agreement at Page 50.

Board of Directors Recommendation:

The Silver Bell Acquisition has been voted on affirmatively by the Members of the Board of Directors of Silver Bell. At a meeting attended by four of its five members, the Board of Directors of Silver Bell has recommended that the Agreement be approved by the shareholders of Silver Bell. No member of Silver Bell's Board of Directors has expressed disapproval of the Silver Bell acquisition. The Board of Directors of Silver Bell adopted the Plan of Liquidation by unanimous written consent.

The Board of Directors of Union unanimously approved the Acquisition.

The terms of the Silver Bell Agreement are the result of arm's-length negotiations conducted primarily by representatives of Union and Minerals and by Eugene H. Sanders and William K. Somerville, President, Treasurer and Director and Executive Vice President, Secretary and Director of Silver Bell, respectively. Among the factors considered in respect of Silver Bell were the existing reserves and assets and earnings forecasts, particularly in regard to the Sweetwater Project described below, as well as judgments with regard to the prospects of Silver Bell separately and, in respect of Minerals, its prospects as the sole owner of the Sweetwater Project. As sole owner, contingent upon the results of technical and economic feasibility studies, Minerals would seek to utilize developing technology for in situ leaching of uranium and exploitation of the exploratory potential of the Sweetwater Project, if warranted, and to reduce operating costs through simplified operation of the Sweetwater Project and other interests which are subject to the Operating Agreement between Silver Bell and Minerals. See BUSINESS AND PROPERTIES OF SILVER BELL — The Sweetwater Project at Page 47, In Situ Leaching Potential at Page 49 and The Operating Agreement at Page 50.

Silver Bell's Management expects that Silver Bell's shareholders will benefit from the Silver Bell Acquisition for a number of reasons, primarily including the following:

(a) In lieu of Silver Bell shares which are tradeable only in the over-the-counter market, Silver Bell shareholders will receive shares of Union, which are traded on the New York, Midwest and Pacific Stock Exchanges and may be more readily sold or pledged;

(b) Silver Bell has no producing properties at the present time and no significant revenues, recurring cash flow, or earnings from operations. In addition, the mining business is highly competitive and capital intensive. Given its limited financial resources, Management believes the transaction with Union will enable Silver Bell to realize more immediately the potential value of its nonproducing mining properties;

(c) Silver Bell's principal asset is its 35% share of the Sweetwater Project. If for any reason the potential of the Sweetwater Project cannot be realized, the value of Silver Bell shares will be substantially diminished. Management of Silver Bell believes that the potential of the Sweetwater Project can best be realized by Silver Bell shareholders, indirectly, as shareholders of Union, a much more diversified company. See BUSINESS AND PROPERTIES OF SILVER BELL — The Sweetwater Project at Page 47; and

(d) Silver Bell shareholders, who have never received a dividend, may be expected to benefit from Union's policy of payment of dividends on a regular basis, although Union's future share dividend policy is subject to change. See COMPARATIVE PER SHARE DATA at Page 20.

As of September 30, 1978, the present officers and directors of Silver Bell, together with family corporations, their wives, children and trusts of which such persons are trustees or beneficiaries, owned beneficially an aggregate of 667,975 shares of Silver Bell's Common Stock, representing approximately 8.82% of the total number of outstanding shares. Of that number, Mr. Sanders owns a total of 515,766 shares or approximately 6.8% of the total number of outstanding shares. In addition, Consolidated Oil & Gas, Inc. owns an additional 850,342 shares or approximately 11% of the total outstanding. Consolidated Oil & Gas, Inc. has informed Silver Bell that it intends to vote in favor of the Silver Bell Acquisition.

There are no outstanding options or warrants to purchase shares of Silver Bell's Common Stock.

The Board of Directors of Silver Bell recommends a vote FOR the proposal relating to the Silver Bell Acquisition.

Federal Income Tax Consequences:

Silver Bell has obtained an opinion from Messrs. Reardon, Reardon and Reardon, a professional corporation, Silver Bell's tax counsel, to the effect that the transaction will constitute a tax-free reorganization within the meaning of Section 368(a)(1)(C) of the Internal Revenue Code of 1954, as amended, and that no gain or loss will be realized by Silver Bell or its stockholders, except to the extent a stockholder receives cash in lieu of fractional shares or for payment of dissenting shares. The basis of the Union Common Stock to be received by shareholders of Silver Bell will be the same as the basis for the Silver Bell Common Stock surrendered in exchange therefor. Silver Bell did not request a ruling from the Internal Revenue Service relating to the federal income tax consequences of the Silver Bell Acquisition.

Any cash received by Silver Bell shareholders in lieu of fractional shares or in payment for dissenting shares will constitute taxable income. See THE SILVER BELL ACQUISITION — Distribution of Union Common Stock; Fractional Shares at Page 7. Shareholders of Silver Bell should consult their own tax advisors regarding the tax consequences of the acquisition to them.

Federal Antitrust Considerations:

Section 7 of the Clayton Act, one of the Federal antitrust laws, provides in part that no corporation shall acquire the stock or assets of another corporation where, in any line of commerce in any section of the country, the effect of such acquisition may be to lessen competition substantially or to tend to create a monopoly. The Federal Trade Commission (the "FTC") and the Antitrust Division of the United States Department of Justice (the "Division") have the responsibility for examining acquisitions under the Federal antitrust laws and, when believed warranted by either thereof, may bring an action to enjoin consummation of an acquisition or to divest stock or assets if the acquisition has been completed. Because of the uncertainties in interpreting these laws, the possibility of a challenge by these governmental agencies cannot be ruled out.

The Hart-Scott-Rodino Antitrust Improvements Act of 1976 (the "Hart-Scott Act") became effective by its terms on February 27, 1977. Under the provisions of the Hart-Scott Act, certain acquisition transactions may not be consummated unless certain information has been furnished to the Division and the FTC and certain waiting period requirements have been satisfied. Union and Silver Bell have determined that it will not be necessary to file the Notification and Report Form required by the Hart-Scott Act with the Division and the FTC because the value of Silver Bell's assets is not sufficient to require such filing.

Distribution of Union Common Stock; Fractional Shares:

If the Silver Bell Acquisition and proceedings required by Colorado law for the voluntary dissolution of the corporation are completed, the shares of Union Common Stock issued to Silver Bell as consideration for the transfer of the Silver Bell Assets (except to the extent that sales of such shares may be

made to provide cash to pay persons entitled to fractional shares, to pay expenses of Silver Bell and to make payments to any dissenting Silver Bell shareholder) will be distributed to the shareholders of Silver Bell in complete dissolution of Silver Bell according to their respective interests. Distribution of shares and/or cash will be made to shareholders of record on October 16, 1978 and no further transfers of Silver Bell shares will be made subsequent to that date on Silver Bell's transfer records.

Management of Silver Bell estimates that Silver Bell's operating expenses and expenses associated with the Silver Bell Acquisition will be approximately \$200,500 and that Silver Bell will be obligated to pay approximately \$116,000 to satisfy its obligation to pay cash to persons entitled to fractional shares. Assuming that no payments are required to be made to dissenting shareholders and that no unanticipated obligations of Silver Bell arise, Silver Bell will be required to sell approximately 6,330 shares of Union Common Stock (based upon the price per share of Union Common Stock of \$50 on September 6, 1978) to meet such obligations to pay cash. Based upon the foregoing estimates and assumptions, a Silver Bell shareholder will receive .054 shares of Union Common Stock for each Silver Bell Share he holds (18.52 Silver Bell shares will be entitled to approximately one share of Union Common Stock). Such exchange ratio is subject to change if any of the foregoing estimates or assumptions prove incorrect. If substantial increases in Silver Bell's expenses or obligations or a substantial decrease in the price of shares of Union Common Stock occur, such exchange ratio may be decreased.

At the time of distribution, a letter of transmittal will be furnished to shareholders of Silver Bell for use in delivering their stock certificates to the United Bank of Denver, the Exchange Agent. Such letter will contain instructions with respect to the surrender of Silver Bell stock certificates and the distribution of Union stock certificates. No fractional shares or scrip certificates will be issued in connection with the Acquisition. In lieu thereof, any Silver Bell shareholder who otherwise would be entitled to receive a fractional share of Union Common Stock will receive cash equal to the per share market value of Union Common Stock (based on the average of the closing prices of Union Common Stock on the New York Stock Exchange on each of the ten trading days immediately preceding the Time of Closing multiplied by the fraction of a share to which such stockholder otherwise would be entitled). No Silver Bell shareholder shall be entitled to any dividends or other rights with respect to such fractional interests.

Each Silver Bell shareholder will be required to surrender all of the Silver Bell stock certificates registered in his name for cancellation prior to the dissolution of Silver Bell in order to receive the Union Common shares to which he is entitled. Pending distribution to Silver Bell's shareholders or to the Treasurer of the State of Colorado, the Union Common Stock will be held by United Bank of Denver, the Exchange Agent. The Exchange Agent will receive and hold all dividends payable on Union's Common Stock held by it. A Silver Bell shareholder will not be entitled to receive any dividends which may be declared to be payable to Union stockholders of record as of any date after consummation of the Silver Bell Acquisition unless such person has surrendered all Silver Bell stock certificates registered in such person's name prior to the dissolution of Silver Bell. Any such dividends and any cash payable in lieu of fractional share interests will be held by the Exchange Agent, and remitted to a Silver Bell shareholder, without interest, at the time such person's stock certificates are surrendered; provided that such surrender is made prior to the dissolution of Silver Bell. Silver Bell's management anticipates that Silver Bell will be dissolved as soon as is practicable and, in no event, later than one year after the date on which shareholders approve the Plan of Liquidation.

In the event that any shareholder of Silver Bell cannot be located at the time the corporation is dissolved, the shares to which he is entitled will be sold and the proceeds of sale, together with accumulated dividends and any payments due for fractional shares, will be paid to the Treasurer of the State of Colorado to be held by him for 21 years under the provisions of the Colorado escheat statute. During that period, any shareholder who could not previously be found can make claim for his portion of the fund.

Resales of Union Common Stock by Silver Bell Affiliates:

Rule 145 promulgated under the Securities Act of 1933, as amended (the "Securities Act"), limits the right of each "Silver Bell Affiliate" to resell shares of Union Common Stock received upon dissolution of Silver Bell. The term "Silver Bell Affiliate" means each person who may be deemed to be a person who controls, or who is a member of a group which controls, is controlled by, or who is under common control with, Silver Bell at the time the proposed Silver Bell Acquisition is submitted for the vote of the stockholders of Silver Bell. Silver Bell will obtain from each of the persons regarded as a Silver Bell Affiliate prior to the effective time of the Acquisition, as a condition to the distribution of Union Common shares, a letter containing a representation to Union that such person will not make any disposition of any of the shares of Union Common Stock obtained as a result of the Silver Bell Acquisition (presently believed to aggregate approximately 81,989 shares of Union Common Stock) unless: (i) such distribution has been registered under the Securities Act; (ii) the sale of the shares is made in conformity with the volume and other applicable limitations of Rule 145 promulgated under the Securities Act; or (iii) some other exemption from registration of the shares is available. Union has not granted registration rights to any Silver Bell Affiliate. Such letter will be in the form of Exhibit 8 to the Silver Bell Agreement, which Exhibit is attached to this Joint Proxy Statement as Annex V and incorporated herein by reference.

Effective Time of the Silver Bell Acquisition:

The Silver Bell Acquisition will become effective at the Time of Closing, which is defined in the Silver Bell Agreement as December 15, 1978, or at such earlier or later time as may be agreed upon by the parties. See THE SILVER BELL ACQUISITION — Certain Terms of the Silver Bell Agreement — Amendments, Conditions and Termination Provisions as to the rights of the parties to amend the Silver Bell Agreement and to proceed with the Silver Bell Acquisition even though certain of the conditions thereto might not have been satisfied.

It is intended that the officers of Silver Bell will file a statement of intent to dissolve with the Secretary of State of the State of Colorado within 15 days after the effective date of the Silver Bell Acquisition and that Silver Bell will promptly proceed to take the steps required to distribute the Union Common shares and any cash payments to Silver Bell's shareholders and to dissolve the Company. It is estimated that distributions will begin approximately 30 days after the effective time of the Acquisition, although unforeseen circumstances may delay such distributions.

When it is determined that the Silver Bell Acquisition has become effective, press releases to that effect will promptly be distributed to various newspapers and wire services. Should it be necessary to abandon the transaction, press releases to that effect will be similarly disseminated.

Certain Terms of the Silver Bell Agreement:

The following is a summary of some of the terms of the Silver Bell Agreement not discussed elsewhere:

Representations, Warranties and Covenants: Silver Bell has made representations and warranties to Union with respect to, among other things, the information included in its Annual Report on Form 10-K for the fiscal year ended March 31, 1977, title to the Assets, and the absence of litigation or claims of others affecting the Assets. In addition, Union has made representations and warranties to Silver Bell with respect to, among other things, certain of its audited financial statements, certain litigation in which it is involved and the absence since December 31, 1977 of any material adverse change in its financial condition or in the results of its operations or of any other event, condition or state of facts of any character which materially and adversely affects or threatens to affect the results of its operations or business or financial condition. The representations and warranties contained in the Agreement will survive the closing of the transaction. Union will waive any rights it may have

against Silver Bell shareholders to recover damages for breach of any representations, warranties or covenants at the Time of Closing, as hereinabove defined.

Amendments, Conditions and Termination Provisions: The Silver Bell Agreement states that any and all amendments must be in writing and executed by all the parties thereto.

The obligations of Union, Minerals and Silver Bell to cause the Silver Bell Acquisition to be consummated are subject to certain conditions, including without limitation that: (i) no proceedings shall be pending or threatened in which it is sought to restrain or prohibit the completion of the Silver Bell Acquisition and no other material proceeding is pending or threatened; (ii) the holders of at least two-thirds of Silver Bell's outstanding stock shall have approved the Silver Bell Agreement; and (iii) all legal proceedings in connection with the transactions shall be satisfactory to each party's counsel and all required releases, waivers and consents shall have been obtained. The obligations of Silver Bell are subject to certain additional conditions, including without limitation that: (i) all obligations shall have been performed by Union and Minerals, including the listing on the New York, Midwest and Pacific Stock Exchanges of the shares of Union Common Stock to be issued to Silver Bell upon completion of the Acquisition; (ii) Union's representations shall be substantially accurate; (iii) certain legal opinions shall have been delivered; (iv) all consents, approvals and actions required by law (including shareholder approvals) shall have been obtained or taken; and (v) the owners of fewer than an aggregate of five percent (5%) of Silver Bell's shares shall have exercised dissenters' rights.

The obligations of Union and Minerals are also conditioned upon the satisfactory performance or waiver of the following conditions: (i) Silver Bell shall have performed its obligations and covenants; (ii) the Silver Bell Assets shall be in substantially the same condition they were in on April 1, 1978; (iii) Silver Bell shall have delivered such evidence of title to the Silver Bell Assets and other title information as Union may reasonably have requested; (iv) title to the Silver Bell Assets shall be satisfactory to Union; and (v) Union shall have determined to its satisfaction that the representations made in the Silver Bell Agreement are substantially accurate in all material respects.

It is contemplated that these conditions will be fulfilled before the Time of Closing, but the Silver Bell Agreement provides that if any one more of such conditions shall not have been satisfied, the party whose obligation to proceed is made subject to the satisfaction of such condition may, nevertheless, at its election, proceed with the Silver Bell Acquisition. Notwithstanding the right of each party to waive the satisfaction of any condition to its obligation to proceed with the Silver Bell Acquisition, the Silver Bell Acquisition will not be consummated if, at the Time of Closing, the Silver Bell Acquisition will not, in the opinion of Silver Bell's tax counsel, constitute a tax-free reorganization. See THE SILVER BELL ACQUISITION — Federal Income Tax Consequences.

The Silver Bell Agreement may be terminated prior to or after shareholder approval of the Silver Bell Agreement, in the event the transactions contemplated by the Silver Bell Agreement are not consummated on or before December 15, 1978 (unless such date is extended by mutual agreement of the parties), because of the nonoccurrence of any condition.

Rights of Dissenting Shareholders:

Any Silver Bell shareholder has the right to dissent from the proposed transaction and, if the proposed transaction is approved and not abandoned, also has the right to receive cash in lieu of Union Common Shares by complying with the notice requirements and other procedures described under RIGHTS OF DISSENTING SHAREHOLDERS OF SILVER BELL AND MANCOS at Page 17. If the holders of an aggregate of more than 5% of Silver Bell's outstanding stock exercise dissenters' rights, the Silver Bell Acquisition may be abandoned, unless Silver Bell waives this condition to completion of the transaction.

The Silver Bell — Mancos Transaction:

In 1973, Silver Bell and Mancos entered into an Interim Agreement under which Silver Bell agreed to acquire the assets of Mancos for 125,000 shares of Silver Bell's Common Stock. Until February 11, 1977, certain pending litigation, Silver Bell's inadequate capitalization and Mancos' inability to obtain audited financial statements prevented Silver Bell from issuing the necessary shares and completing the transaction.

In 1978, Union, Minerals and Silver Bell agreed that Minerals would acquire substantially all of Silver Bell's assets in exchange for 425,000 shares of Union's Common Stock. Silver Bell requested that Union and Minerals acquire Mancos' assets directly as a means of discharging Silver Bell's obligations under the Interim Agreement. Because Union and Minerals have no interest in acquiring Mancos' assets, they agreed to do so only upon the condition that the number of shares to be issued to Mancos would reduce the number of shares issued to Silver Bell. The 418,095 Union shares to be issued to Silver Bell and the 6,905 shares to be issued to Mancos resulted from this agreement and reflect the number of Union shares which would have been received by Mancos' shareholders if Silver Bell had acquired Mancos pursuant to the Interim Agreement and Union had issued 425,000 shares in exchange for Silver Bell's assets.

A Conditional Release was executed on June 19, 1978 by Silver Bell and Mancos whereby Silver Bell was released from its obligation to acquire Mancos' assets if the Silver Bell and Mancos Acquisitions described in this Joint Proxy Statement are completed. If the Acquisitions are not completed for any reason, the Conditional Release provides that the Interim Agreement between Silver Bell and Mancos will again be effective.

PURPOSE OF THE MANCOS MEETING

The Special Meeting of Shareholders has been called to consider and vote upon a proposal to approve and adopt the Agreement and Plan of Reorganization by and among Mancos, Union Oil Company of California, a California corporation ("Union") and Minerals Exploration Company, a California corporation and a wholly-owned subsidiary of Union, ("Minerals"). Minerals will acquire substantially all of the assets, except for cash on hand, in banks (including certificates of deposit) and on deposit with third parties of Mancos (the "Mancos Assets") in exchange for 6,905 shares of Union's Common Stock, par value \$8 $\frac{1}{3}$ per share ("Union Common Stock"). Neither Union nor Minerals will assume any obligations of Mancos and Mancos will continue to be liable for the satisfaction of any obligations in existence at the completion of the Mancos Acquisition. Aside from the described obligations and the obligations which will arise in connection with the completion of the sale-of-assets transaction described herein (See EXPENSES on page 16 hereof), Mancos has no known obligations. Mancos will pay all such current obligations prior to or in the course of liquidation.

After the transfer of assets contemplated by the Agreement and Plan of Reorganization (the "Mancos Agreement") is completed, it is contemplated that the shares of Union Common Stock issued to Mancos as consideration for such transfer (except to the extent that sales of such shares may be made to provide cash to pay persons entitled to fractional shares, to pay expenses of Mancos and to make payments to any dissenting Mancos shareholders) will be distributed to the shareholders of Mancos according to their respective interests and that Mancos will then be dissolved pursuant to the Plan of Liquidation, a copy of which is attached hereto as Annex II and applicable law.

The Mancos Agreement is attached hereto as Annex IV. The statements contained in this Joint Proxy Statement with respect to the terms of the Mancos Agreement are subject to the more complete information set forth in such Annex and are qualified in their entirety by reference thereto.

VOTE REQUIRED

Approval of the acquisition by Minerals of the Mancos Assets (the "Mancos Acquisition") and the dissolution of Mancos will require the affirmative vote of the holders of not less than two-thirds of the outstanding shares of Mancos Common Stock entitled to vote at the meeting.

The members of the Mancos Board of Directors have indicated to Mancos that they intend to vote all shares of Mancos Common Stock owned by them in favor of the Mancos Acquisition; as of July 15, 1978, such shares constituted 30.05% of the total number of outstanding shares of Mancos.

Even if the Mancos Acquisition is approved by the Mancos shareholders, its completion will be subject to a number of conditions. See THE MANCOS ACQUISITION — Certain Terms of the Mancos Agreement — Amendments, Conditions and Termination Provisions at Page 15.

THE MANCOS ACQUISITION

Parties:

Union is a California corporation with its principal executive offices at Union Oil Center, Los Angeles, California 90017 (telephone [213] 486-7600). Union is engaged principally in petroleum, chemical and mineral operations. Petroleum operations involve the exploration, production, transportation and sale of crude oil, natural gas and geothermal resources; and the manufacture, transportation and marketing of petroleum products. Chemical operations involve the manufacture, purchase and marketing of chemicals for industrial and agricultural uses. Mineral operations primarily involve the exploration, development, mining, processing and marketing of molybdenum, columbium, rare earths and uranium. Other operations include real estate development and sales. All phases of business in which Union engages are highly competitive. Union's business will continue to be affected not only by such competition, but by general economic developments, governmental regulations, labor conditions and technological and international developments. See BUSINESS AND PROPERTIES OF UNION at Page 27.

Mancos has been inactive since its incorporation in 1970. It owns exploratory mining properties in Montezuma County, Colorado. See BUSINESS AND PROPERTIES OF MANCOS at Page 59.

Board of Directors Recommendation:

The Mancos Acquisition has been voted on affirmatively by each of the Members of the Board of Directors of Mancos. At a meeting attended by two of its three members, the Board of Directors of Mancos has recommended that the Mancos Agreement be approved by the shareholders of Mancos. A third director executed a Waiver of Notice and Consent to the action of the Board of Directors. The Plan of Liquidation was adopted by unanimous written consent of Mancos' Board of Directors. No Mancos Director has expressed disapproval of the Mancos Acquisition.

The Board of Directors of Union unanimously approved the Mancos Acquisition.

The terms of the Mancos Agreement reflect the terms of the Interim Agreement entered into by Mancos and Silver Bell Industries, Inc., a Colorado corporation ("Silver Bell") on September 6, 1973. That agreement provided that at the earliest possible date the parties would enter into an agreement under which Mancos would sell all of its assets to Silver Bell in exchange for 125,000 shares of Silver Bell stock. The Interim Agreement was not concluded due to pending litigation against Silver Bell, Silver Bell's inadequate capitalization and Mancos' inability to obtain audited financial statements.

In 1978, Union, Minerals and Silver Bell agreed that Minerals would acquire substantially all of the assets of Silver Bell for 425,000 shares of Union Common Stock. Silver Bell requested that Union and Minerals acquire Mancos' assets directly as a means of discharging Silver Bell's obligations under the Interim Agreement. Because Union and Minerals have no interest in acquiring Mancos' assets, they agreed to do so only upon the condition that the number of shares to be issued to Mancos would reduce the number of shares issued to Silver Bell. The 418,095 Union shares to be issued to Silver Bell and the 6,905 shares to be issued to Mancos resulted from this agreement and reflect the number of Union shares which would have been received by Mancos' shareholders if Silver Bell had acquired Mancos pursuant to the Interim Agreement and Union had issued 425,000 shares in exchange for Silver Bell's assets.

A Conditional Release was executed on June 19, 1978 by Silver Bell and Mancos whereby Silver Bell was released from its obligation to acquire Mancos' assets if the Silver Bell and Mancos Acquisitions described in this Joint Proxy Statement are completed. If the Acquisitions are not completed for any reason, the Conditional Release provides that the Interim Agreement between Silver Bell and Mancos will again be effective.

Mancos' Management anticipates that Mancos' shareholders will benefit from the Mancos Acquisition for the following reasons:

(a) In lieu of Mancos shares which are not readily tradeable, Mancos shareholders will receive shares of Union, which are traded on the New York, Midwest and Pacific Stock Exchanges and may be more easily sold or pledged;

(b) Mancos has no producing properties at the present time and no significant revenues, recurring cash flow, or earnings from operations. In addition, the mining business is highly competitive and capital intensive. Given its limited financial resources, Management believes the transaction with Union will enable Mancos to realize some value from its nonproducing mining properties;

(c) Mancos shareholders, who have never received a dividend, may be expected to benefit from Union's policy of payment of dividends on a regular basis, although Union's future share dividend policy is subject to change. See COMPARATIVE PER SHARE DATA at Page 20.

As of July 15, 1978, the present officers and directors of Mancos, together with their wives, children and trusts of which such persons are trustees or beneficiaries, owned beneficially an aggregate of 530,500 shares of Mancos' Common Stock, representing 30.05% of the total number of outstanding shares. Of that number, Earl J. Brubaker owns a total of 510,500 shares or 28.92% of the total number of outstanding shares.

There are no outstanding options or warrants to purchase shares of Mancos' Common Stock.

The Board of Directors of Mancos recommends a vote FOR the proposal relating to the Mancos Acquisition.

Federal Income Tax Consequences:

Mancos has obtained an opinion from Messrs. Reardon, Reardon and Reardon, a professional corporation, tax counsel, to the effect that the transaction will constitute a tax-free reorganization within the meaning of Section 368(a)(1)(C) of the Internal Revenue Code of 1954, as amended, and that no gain or loss will be realized by Mancos or its stockholders, except to the extent a stockholder receives cash in lieu of fractional shares or for payment of dissenting shares. The basis of the Union Common Stock to be received by shareholders of Mancos will be the same as the basis for the Mancos Common Stock surrendered in exchange therefor. Mancos did not request a ruling from the Internal Revenue Service relating to the federal income tax consequences of the Mancos Acquisition.

Any cash received by Mancos shareholders in lieu of fractional shares or in payment of dissenting shares will constitute taxable income. See THE MANCOS ACQUISITION — Distribution of Union Common Stock; Fractional Shares below. Shareholders of Mancos should consult their own tax advisors regarding the tax consequences of the acquisition to them.

Distribution of Union Common Stock; Fractional Shares:

If the Mancos Acquisition and proceedings required by Colorado law for the voluntary dissolution of the corporation are completed, the shares of Union Common Stock issued to Mancos as consideration for the transfer of the Mancos Assets (except to the extent that sales of such shares may be made to provide cash to pay persons entitled to fractional shares, to pay expenses of Mancos and to make payments to any dissenting Mancos shareholder) will be distributed to the shareholders of Mancos in complete dissolution of Mancos according to their respective interests. Distribution of shares and/or

cash will be made to shareholders of record on October 16, 1978 and no further transfers of Mancos shares will be made subsequent to that date on Mancos' transfer records.

Management of Mancos estimates that cash in the amount of approximately \$30,000 will be available to Mancos during the period prior to completion of the Mancos Acquisition, that Mancos' expenses will be \$30,000 and that Mancos will be obligated to pay approximately \$7,500 to satisfy its obligation to pay cash to persons entitled to fractional shares. Assuming that no payments are required to be made to dissenting shareholders and that no unanticipated obligations of Mancos arise, Mancos will be required to sell approximately 150 shares of Union Common Stock (based upon the price per share of Union Common Stock of \$50 on September 6, 1978) to meet such obligations to pay cash. Based upon the foregoing estimates and assumptions, a Mancos shareholder will receive approximately .0039 shares of Union Common Stock for each Mancos Common share he holds (255.46 Mancos shares will be entitled to approximately one share of Union Common Stock). Such exchange ratio is subject to change if any of the foregoing estimates or assumptions prove incorrect. If substantial increases in Mancos' expenses or obligations or a substantial decrease in the price of shares of Union Common Stock occur, such exchange ratio may decrease.

At the time of distribution, a letter of transmittal will be furnished to shareholders of Mancos for use in delivering their stock certificates to Mancos. Such letter will contain instructions with respect to the surrender of Mancos' stock certificates and the distribution of Union stock certificates. No fractional shares or scrip certificates will be issued in connection with the Mancos Acquisition. In lieu thereof, any Mancos shareholder who otherwise would be entitled to receive a fractional share of Union Common Stock will receive cash equal to the per share market value of Union Common Stock (based on the average of the closing prices of Union Common Stock on the New York Stock Exchange on each of the ten trading days immediately preceding the Time of Closing multiplied by the fraction of a share to which such stockholder otherwise would be entitled). No Mancos shareholder shall be entitled to any dividends or other rights with respect to such fractional interests.

Each Mancos shareholder will be required to surrender all of the Mancos stock certificates registered in his name for cancellation prior to the dissolution of Mancos in order to receive the Union Common shares to which he is entitled. Pending distribution to Mancos' shareholders or to the Treasurer of the State of Colorado, the Union Common Stock will be held by Mancos. Mancos will receive and hold all dividends payable on Union's Common Stock held by it. A Mancos shareholder will not be entitled to receive any dividends which may be declared to be payable to Union stockholders of record as of any date after consummation of the Mancos Acquisition unless such person has surrendered all Mancos stock certificates registered in such person's name prior to the dissolution of Mancos. Any such dividends and any cash payable in lieu of fractional share interests will be held by Mancos, and remitted to a Mancos shareholder, without interest, at the time such person's stock certificates are surrendered; provided that such surrender is made prior to the dissolution of Mancos. Mancos' management anticipates that Mancos will be dissolved as soon as is practicable and, in no event, later than one year after the date on which shareholders approve the Plan of Liquidation.

In the event that any Mancos shareholder cannot be located at the time the corporation is dissolved, the shares to which he is entitled will be sold and the proceeds of sale, together with accumulated dividends and any payments due for fractional shares, will be paid to the Treasurer of the State of Colorado to be held by him for 21 years under the provisions of the Colorado escheat statute. During that period, any shareholder who could not previously be found can make claim for his portion of the fund.

Resales of Union Common Stock by Mancos Affiliates:

Rule 145 promulgated under the Securities Act of 1933, as amended (the "Securities Act"), limits the right of each "Mancos Affiliate" to resell shares of Union Common Stock received upon liquidation of Mancos. The term "Mancos Affiliate" means each person who may be deemed to

be a person who controls, or who is a member of a group which controls, is controlled by, or who is under common control with; Mancos at the time the proposed Mancos Acquisition is submitted for the vote of the stockholders of Mancos. Mancos will obtain from each of the persons regarded as a Mancos Affiliate prior to the effective time of the Mancos Acquisition, as a condition to the distribution of Union Common Shares, a letter containing a representation to Union that such person will not make any disposition of any of the shares of Union Common Stock obtained as a result of the Mancos Acquisition (presently believed to aggregate approximately 2,067 shares of Union Common Stock) unless: (i) such distribution has been registered under the Securities Act; (ii) the sale of the shares is made in conformity with the volume and other applicable limitations of Rule 145 promulgated under the Securities Act; or (iii) some other exemption from registration of the shares is available. Such letter will be in the form of Exhibit 8 to the Mancos Agreement, which Exhibit is attached to this Joint Proxy Statement as Annex VI and incorporated herein by reference. Union has not granted registration rights to any Mancos Affiliate.

Effective Time of the Acquisition:

The Mancos Acquisition will become effective at the Time of Closing, which is defined in the Mancos Agreement as December 15, 1978, or at such earlier or later time as may be agreed upon by the parties. See THE MANCOS ACQUISITION — Certain Terms of the Mancos Agreement — Amendments, Conditions and Termination Provisions as to the rights of the parties to amend the Mancos Agreement and to proceed with the Mancos Acquisition even though certain of the conditions thereto might not have been satisfied.

It is estimated that the officers of Mancos will file a statement of intent to dissolve with the Secretary of State of the State of Colorado within 15 days after the effective date of the Mancos Acquisition and that Mancos will promptly proceed to take the steps required to distribute the Union Common Shares and any cash payments to Mancos' shareholders and to dissolve Mancos. It is estimated that distributions will begin approximately 30 days after the effective time of the Mancos Acquisition, although unforeseen circumstances may delay such distributions.

When it is determined that the Mancos Acquisition has become effective, press releases to that effect will promptly be distributed to various newspapers and wire services. Should it be necessary to abandon the transaction, press releases to that effect will be similarly disseminated.

Certain Terms of the Mancos Agreement:

The following is a summary of some of the terms of the Mancos Agreement not discussed elsewhere:

Representations, Warranties and Covenants: Mancos has made representations and warranties to Union with respect to, among other things, the information included in its Financial Statements for the fiscal year ended December 31, 1977, title to the Mancos Assets, and the absence of litigation or claims of others affecting the Mancos Assets (except for the agreement with Silver Bell described in this Proxy Statement). In addition, Union has made representations and warranties to Mancos with respect to, among other things, certain of its audited financial statements, certain litigation in which it is involved and the absence since December 31, 1977 of any material adverse change in its financial condition or in the results of its operations or of any other event, condition or state of facts of any character which materially and adversely affects or threatens to affect the results of its operations or business or financial condition. The representations and warranties contained in the Mancos Agreement will survive the closing of the transaction. Union will waive any rights it may have against Mancos shareholders to recover damages for breach of any representations, warranties or covenants at the Time of Closing, as hereinabove defined.

Amendments, Conditions and Termination Provisions: The Mancos Agreement states that any and all amendments must be in writing and executed by all the parties thereto.

The obligations of Union, Minerals and Mancos to cause the Mancos Acquisition to be consummated are subject to certain conditions, including without limitation that: (i) no proceedings shall be pending or threatened in which it is sought to restrain or prohibit the completion of the Mancos Acquisition and no other material proceeding is pending or threatened; (ii) the holders of at least two-thirds of Mancos' outstanding stock shall have approved the Mancos Agreement; (iii) all legal proceedings in connection with the transactions shall be satisfactory to each party's counsel and all required releases, waivers and consents shall have been obtained; and (iv) the completion of the Agreement and Plan of Reorganization between Silver Bell, Union and Minerals dated May 15, 1978.

The obligations of Mancos are subject to certain additional conditions, including without limitation that: (i) all obligations shall have been performed by Union and Minerals, including the listing on the New York, Midwest and Pacific Stock Exchanges of the shares of Union Common Stock to be issued to Mancos upon completion of the Mancos Acquisition; (ii) Union's representations shall be substantially accurate; (iii) certain legal opinions shall have been delivered; (iv) all consents, approvals and actions required by law (including shareholder approvals) shall have been obtained or taken; and (v) the owners of fewer than an aggregate of twenty percent (20%) of Mancos' shares shall have exercised dissenters' rights.

The obligations of Union and Minerals are also conditioned upon the satisfactory performance or waiver of the following conditions: (i) Mancos shall have performed its obligations and covenants; (ii) the Mancos Assets shall be in substantially the same condition they were in on December 31, 1977; (iii) Mancos shall have delivered such evidence of title to the Mancos Assets and other title information as Union may reasonably have requested; (iv) title to the Mancos Assets shall be satisfactory to Union; and (v) Union shall have determined to its satisfaction that the representations made in the Mancos Agreement are substantially accurate in all material respects.

It is contemplated that these conditions will be fulfilled before the Time of Closing, but the Mancos Agreement provides that if any one or more of such conditions shall not have been satisfied, the party whose obligation to proceed is made subject to the satisfaction of such condition may, nevertheless, at its election, proceed with the Mancos Acquisition. Notwithstanding the right of each party to waive the satisfaction of any condition to its obligation to proceed with the Mancos Acquisition, the Mancos Acquisition will not be consummated if, at the Time of Closing, the Mancos Acquisition will not, in the opinion of tax counsel, constitute a tax-free reorganization. See THE MANCOS ACQUISITION — Federal Income Tax Consequences.

The Mancos Agreement may be terminated prior to or after shareholder approval of the Mancos Agreement, in the event the transactions contemplated by the Agreement are not consummated on or before December 15, 1978 (unless such date is extended by mutual agreement of the parties), because of the nonoccurrence of any condition.

Rights of Dissenting Shareholders:

Any Mancos shareholder has the right to dissent from the proposed transaction and, if the proposed transaction is approved and not abandoned, also has the right to receive cash in lieu of Union Common Shares by complying with the notice requirements and other procedures described under RIGHTS OF DISSENTING SHAREHOLDERS OF SILVER BELL AND MANCOS at Page 17. If the holders of an aggregate of more than 20% of Mancos' outstanding stock exercise dissenters' rights, the Mancos Acquisition may be abandoned, unless Mancos waives this condition to completion of the transaction.

EXPENSES

The Silver Bell Agreement provides that Silver Bell shall pay all costs of obtaining any required consents and waivers; costs of curing title to the Silver Bell Assets; its own counsel and accounting fees; and costs of securing shareholder approval of the Agreement. Union shall pay costs of preparing

the Registration Statement; its own counsel and accounting fees, including those relating to title examination; and recording fees. Printing costs will be shared equally with Union. It is estimated that Silver Bell's expenses will aggregate from \$210,500 to \$225,500, consisting of \$37,500 for exchange agent fees, salaries of officers and employees and office overhead prior to closing, \$100,000 for legal and accounting fees, between \$25,000 and \$50,000 for printing, and \$48,000 for miscellaneous costs. Expenses of Union are estimated to aggregate \$71,750, consisting of \$10,000 for outside accounting, \$50,000 for printing, \$4,250 for the Securities and Exchange Commission filing fee, and \$7,500 for miscellaneous costs.

The Mancos Agreement provides that Mancos shall pay all costs of obtaining any required consents and waivers; costs of curing title to the Mancos Assets; its own counsel and accounting fees; and costs of securing shareholder approval of the Mancos Agreement. Mancos' expenses are estimated to aggregate \$30,000, consisting of \$25,000 for legal fees and \$5,000 for miscellaneous costs.

PURCHASES OF UNION COMMON STOCK

Union has purchased 425,000 shares of its Common Stock, pursuant to an exemption from the operation of Securities and Exchange Commission Rule 10b-6 and in conformity with the conditions set forth in the exemption letter obtained by Union. Such purchases commenced on or about April 25, 1978 and the last of such purchases was made on May 26, 1978. The shares were purchased for use by Union in acquiring the Assets of Silver Bell and Mancos. The closing price per share of Union's Common Stock as reported by the Wall Street Journal NYSE-Composite Transactions on April 24, 1978, the day prior to the day on which purchases commenced, was \$49³/₈, and was \$49³/₄ on May 26, 1978, the day on which purchases ceased.

RIGHTS OF DISSENTING SHAREHOLDERS OF SILVER BELL AND MANCOS

Any Silver Bell or Mancos shareholder has the right to dissent from the proposed transaction and, if the proposed transaction is approved and not abandoned, also has the right, upon compliance with the procedures set forth in Section 7-4-123 of the Colorado Corporation Code to receive payment in cash for the fair market value of his shares as of November 26, 1978, for Silver Bell shareholders or as of November 26, 1978 for Mancos shareholders, the day prior to the date on which the respective Special Meetings of Shareholders are to be held, exclusive of any element of value arising from the expectation or accomplishment of the respective transactions. No such right exists unless demands for such payments are filed, as described below. A shareholder may dissent with respect to all or any part of his shares.

If the holders of more than an aggregate of five percent (5%) of Silver Bell's outstanding stock exercise dissenters' rights, the Silver Bell Acquisition may be abandoned, unless Silver Bell waives this condition to completion of the transaction. See THE SILVER BELL ACQUISITION — Certain Terms of the Silver Bell Agreement — Amendments, Conditions and Termination Provisions at Page 10.

If the holders of more than an aggregate of twenty percent (20%) of Mancos' outstanding stock exercise dissenters' rights, the Mancos Acquisition may be abandoned, unless Mancos waives this condition to completion of the transaction. See THE MANCOS ACQUISITION — Certain Terms of the Mancos Agreement — Amendments, Conditions and Termination Provisions at Page 15.

Any shareholder electing to exercise his right to dissent from the transaction ("Dissenting Shareholder") and have the corporation purchase his shares for cash must satisfy the following requirements: (i) he must file with the corporation a written objection to the sale of substantially all of the corporation's assets or to the dissolution of the corporation prior to the Special Meeting of Shareholders at which shareholder approval is sought; (ii) he must not vote in favor thereof; (iii) he must make written demand on the corporation for the payment to him of the fair value of his shares, which demand must be

—received within ten (10) days after the vote was taken; and (iv) within twenty (20) days after demanding payment for his shares, he must submit the certificates representing his shares to the corporation for notation thereon that such demand has been made. Any dissenting shareholder failing to make demand within the ten-day period shall be bound by the terms of the sale.

Within thirty (30) days after the Time of Closing, the corporation must give notice thereof to each dissenting shareholder who has made demand as provided above for the payment of the fair value of his shares. At such time, the corporation shall make a written offer to each dissenting shareholder to pay for such shares at a specified price deemed by the corporation to be the fair value thereof.

If, within fifty (50) days after the Time of Closing, the value of such shares is agreed upon between the dissenting shareholder and the corporation, payment therefor shall be made within ninety (90) days after such date upon the surrender of his certificate representing such shares. Upon payment of the agreed value, the dissenting shareholder shall cease to have any interest in such shares or in the corporation.

If, within such period of fifty days, the shareholder and the corporation do not so agree, then the corporation, within thirty days after receipt of written demand from any dissenting shareholder given within sixty days after the Time of Closing shall file, or at its election at any time within such period of sixty days, may file, a petition in the district court for the county or city and county where the registered office of the corporation is located requesting that the fair value of such shares be determined. If the corporation fails to institute such proceedings, any dissenting shareholder may do so in the name of the corporation. All dissenting shareholders, except those who have previously agreed with the corporation as to the fair value of their shares, wherever residing, shall be made parties to the proceeding. (If the corporation fails to institute such proceedings and if a dissenting shareholder or shareholders do not bring proceedings in the name of the corporation, dissenting shareholders will be entitled to receive the amount offered by the corporation).

The right of a dissenting shareholder to be paid the fair value of his shares as provided in Section 7-4-123 of the Colorado Corporation Code shall cease if and when the corporation abandons the sale, or the shareholders revoke the authority to make such sale.

Persons who are beneficial owners of Silver Bell or Mancos Common Stock but whose shares are held of record by another person, such as a broker, bank or nominee, should instruct the recordholder to follow the procedure outlined above if such persons wish to dissent with respect to their shares.

The foregoing is a summary of the rights of Dissenting Shareholders, does not purport to be a complete statement thereof, and is qualified in its entirety by reference to the applicable statutory provisions of the Colorado Corporation Code which are attached to this Joint Proxy Statement as Annex VII.

The receipt of cash for Dissenting Shares by shareholders may give rise to taxable income. Shareholders are urged to consult their personal tax advisors to determine the tax consequences of the exercise of dissenters' rights by them.

SOME DIFFERENCES BETWEEN COLORADO AND CALIFORNIA CORPORATION LAWS

The rights of shareholders of Silver Bell and Mancos, Colorado corporations, are governed primarily by the provisions of the Colorado Corporation Code. Union is a California corporation and the rights of its shareholders are governed primarily by the provisions of the California General Corporation Law. The provisions of the Colorado and California laws differ in many respects; briefly summarized below are certain of the principal differences affecting the rights of shareholders of Silver Bell, Mancos and Union. The summary does not purport to be a complete statement of the differences between the California General Corporation Law and the Colorado Corporation Code and related laws affecting shareholders' rights and is qualified in its entirety by reference to the provisions thereof:

a. Under California law, shareholders have the right of cumulative voting in elections for directors, pursuant to which each shareholder has the right, upon giving specified notice, to give one candidate a number of votes equal to the number of directors to be elected multiplied by the number of votes to which his shares are entitled, or to distribute his votes on the same principle among as many candidates as he thinks fit. Under Colorado law, cumulative voting in the election of directors is not mandated by statute, and the Silver Bell and Mancos Articles of Incorporation do not presently provide for cumulative voting.

b. Under California law, the number of directors may be changed only by the vote of shareholders holding a majority of the shares entitled to vote, unless the Articles of Incorporation provide (as do those of Union at the present time) for an indeterminate number of directors with the exact number to be fixed by approval of the board or the shareholders. The Union Articles of Incorporation provide for a minimum of twelve and a maximum of fifteen directors. In addition, under California law the number of directors may not be reduced to below five without the vote of the holders of $83\frac{1}{3}\%$ of the shares.

c. Under California law, special meetings of the shareholders may be called by the holders of not less than 10% of the voting power. Under Colorado law, special meetings of shareholders may be called only by the president, the board of directors, the holders of not less than one-tenth of all the shares entitled to vote at the meeting, or by such other officers or persons as may be provided by the articles of incorporation or the bylaws. The bylaws of Silver Bell presently provide for the calling of such a meeting by the aforesaid persons. The bylaws of Mancos presently provide for the calling of such a meeting by the president, the board of directors or the holders of one-fourth of all the shares entitled to vote at the meeting.

COMPARATIVE PER SHARE DATA
(Unaudited)

Earnings Per Share of Common Stock:

	Year Ended December 31,					Six Months Ended June 30,	
	1973	1974	1975	1976	1977	1977	1978
Union:							
Historical:							
Assuming no dilution(a).....	\$5.01	\$8.26	\$6.30	\$7.17	\$7.86	\$3.73	\$3.82
Assuming full dilution(a).....	\$4.10	\$6.64	\$5.32	\$6.36	\$7.39	\$3.49	\$3.73
Mancos:							
Historical(b).....			\$(.0003)	\$.0009	\$(.00035)		
Pro Forma(c).....			\$.0207	\$.0248	\$.0288		

	Year Ended March 31,		
	1976	1977	1978
Silver Bell:			
Historical(d).....	\$(0.04)	\$(0.05)	\$(0.04)
Pro Forma(e).....	\$ 0.29	\$ 0.34	\$ 0.40

Book Value Per Share of Common Stock:

	As of December 31, 1977	As of June 30, 1978
Union:		
Historical(f).....	\$53.69	\$56.41
Mancos:		
Historical(g).....	\$ 0.13848	
Pro Forma(c).....	\$ 0.20939	
	As of March 31, 1978	
Silver Bell:		
Historical(h).....	\$ 0.60	
Pro Forma(e).....	\$ 2.90	

- (a) Earnings per share assuming no dilution are based on weighted average Common Shares outstanding during each period and earnings after deducting preferred dividend requirements. Earnings per Common Share assuming full dilution assumes the weighted average outstanding preferred shares, convertible debentures and stock options were converted into Common Shares.
- (b) Income (loss) per share was computed using the weighted average number of shares outstanding during the year.
- (c) Reflects exchange ratio of .0039 share of Union Common Stock for each share of Mancos Common Stock.
- (d) Net loss per share is based on weighted average common shares outstanding during each period.
- (e) Reflects exchange ratio of .054 share of Union Common Stock for each share of Silver Bell Common Stock using Union's fully diluted earnings per share for the years ended December 31, 1975, 1976 and 1977 and Union's book value per Common Share at December 31, 1977.
- (f) Union historical book value per share is based on the shareowners' equity of Union and the assumed conversion of any outstanding preferred shares, all convertible debentures and stock options into common shares at the balance sheet data.
- (g) Book value per share is based upon the stockholders' equity at the end of the year divided by the shares outstanding at year-end. No options to purchase were ever granted.
- (h) Book value per share is based upon the shareholders' equity at the end of the fiscal year divided by the sum of Common Stock outstanding plus options outstanding at the end of the fiscal year.

COMPARATIVE MARKET PRICES OF UNION AND SILVER BELL COMMON STOCK

The following table sets forth the reported high and low sale prices of Union Common Stock and the high and low bid and asked prices of Silver Bell Common Stock, as reported by the Wall Street Journal and NASD Quotations. Prior to January 26, 1976, prices reported by the Wall Street Journal were those on the New York Stock Exchange and since that date prices quoted were a composite of transactions on such Exchange, on regional exchanges and in certain other transactions.

	Union Sales Prices		Silver Bell Bid Prices		Silver Bell Asked Prices	
	High	Low	High	Low	High	Low
1973.....	\$50¾	\$32½				
1974.....	56¾	27¼				
1975.....	50⅞	32½	\$2.38	\$0.88	\$2.75	\$1.13
1976						
First Quarter.....	47¾	40⅞	2.38	1.50	2.63	1.75
Second Quarter.....	55⅞	42¾	2.25	1.38	2.50	1.63
Third Quarter.....	55⅞	49¾	1.63	1.13	1.88	1.38
Fourth Quarter.....	59⅞	50⅞	2.38	1.38	2.75	1.63
1977						
First Quarter.....	59¼	53⅞	2.00	1.63	2.35	1.88
Second Quarter.....	56	50¾	2.00	1.50	2.25	1.75
Third Quarter.....	58½	49⅞	1.88	1.38	2.13	1.63
Fourth Quarter.....	56¼	50¼	2.00	1.63	2.25	1.88
1978						
First Quarter.....	52⅞	45¾	2.13	1.63	2.38	1.88
Second Quarter.....	53¼	46⅞	2.25	2.00	2.50	2.25
Third Quarter.....	56⅞	48⅞	2.38	2.00	2.63	2.25

On March 29, 1978, the day preceding the public announcement of the Silver Bell Acquisition, the high and low sale prices of Union Common Stock as reported by the *Wall Street Journal* were \$49¾ and \$49⅞, respectively. The bid and asked prices for shares of Silver Bell's Common Stock were \$2 and \$2.25, respectively on said date. The Mancos Acquisition was not publicly announced.

Union's Common shares are listed on the New York, Midwest and Pacific Stock Exchanges. Silver Bell's Common shares are traded in the over-the-counter market. The shares of Mancos are not publicly traded.

The bid and asked prices for shares of Silver Bell Common Stock disclosed above do not represent actual transactions.

**UNION OIL COMPANY OF CALIFORNIA AND CONSOLIDATED SUBSIDIARIES
CAPITALIZATION**

The following table sets forth the capitalization of Union at December 31, 1977 and June 30, 1978.

	December 31, 1977	June 30, 1978 (Unaudited)
	Thousands of Dollars	
Short-term debt		
Short-term notes payable.....	\$ 41,917	\$ 16,630
Current portion of long-term debt.....	14,921	35,251
Total short-term debt.....	56,838	51,881
Long-term debt.....	1,024,513	1,034,149
Minority interests.....	16,826	16,569
Shareowners' equity:		
Preferred Shares, \$2.50 cumulative convertible without par value.....	24,046	—
Common Shares, par value \$8 $\frac{1}{3}$	352,503	366,150
Capital in excess of par or stated value of shares issued.....	193,940	189,575
Retained earnings.....	1,866,964	1,934,175
Total shareowners' equity.....	2,437,453	2,489,900
Total capitalization.....	<u>\$3,535,630</u>	<u>\$3,592,499</u>

CAPITALIZATION OF SILVER BELL AND MANCOS

The following table shows the capitalization of Silver Bell and Mancos, each at March 31, 1978:

	<u>Silver Bell</u>	<u>Mancos</u>
Debt:		
Notes Payable.....	\$ 50,000(1) 12,070(1)	None(2)
Capital Stock:		
Silver Bell		
Authorized 7,700,000		
\$0.25 par value common.....	7,568,388	
Mancos		
Authorized 5,000,000		
\$0.01 par value common.....		1,765,219

- (1) Silver Bell owes \$50,000 to Mancos under and pursuant to a promissory note for money borrowed on September 6, 1973, which bears interest at 7% per annum. The maturity date of the promissory note has been extended to May 31, 1979. Union has agreed to assume the obligation to repay the promissory note to Mancos.

Silver Bell issued a promissory note in the principal amount of \$12,070 to Minerals. The promissory note bears interest at the rate of 7% per annum and matures on April 30, 1979. The note will be cancelled if the Silver Bell Acquisition is completed.

- (2) Mancos will assign the promissory note referred to in (1) above to Minerals as part of its assets. The promissory note will then be cancelled.

PRO FORMA FINANCIAL DATA

Pro forma data has not been furnished since the Silver Bell and Mancos Acquisitions will not result in material changes in Union's capitalization, earnings or assets. Since Union purchased on the open market all of the Union Common shares to be exchanged for the Silver Bell and Mancos Assets, neither the historical book value per share nor the historical earnings per share of Union will change as a result of the transactions.

UNION OIL COMPANY OF CALIFORNIA AND CONSOLIDATED SUBSIDIARIES

STATEMENT OF CONSOLIDATED EARNINGS

The following statement of consolidated earnings of Union Oil Company of California and its consolidated subsidiaries for the five years ended December 31, 1977 has been examined by Coopers & Lybrand, independent certified public accountants, whose report with respect thereto appears elsewhere herein. In the opinion of Union, the unaudited data for the periods ended June 30, 1977 and June 30, 1978 reflect all adjustments (consisting only of normal recurring accruals) required for a fair presentation of the results of operations for the respective periods. This statement should be read in conjunction with the other financial statements and notes thereto appearing elsewhere herein.

	Year Ended December 31,					Six Months Ended June 30, (Unaudited)	
	1973 Restated	1974 Restated	1975 Restated	1976 Restated	1977	1977 Restated	1978
	Thousands of Dollars						
Revenues							
Sales (including excise taxes)*.....	\$2,860,874	\$4,726,640	\$5,353,095	\$5,632,399	\$5,842,895	\$2,914,138	\$2,945,776
Other operating revenues.....	110,275	119,068	143,325	152,325	191,184	80,468	88,039
Interest, dividends and miscellaneous income (Note 4).....	31,061	4,358	42,442	42,684	31,258	18,726	18,836
Equity in earnings of affiliated companies.....	16,180	14,581	13,041	28,764	25,160	13,520	12,159
Gains on sales of assets.....	7,345	4,129	11,307	15,672	8,678	3,294	14,233
Total revenues.....	<u>3,025,735</u>	<u>4,868,776</u>	<u>5,563,210</u>	<u>5,871,844</u>	<u>6,099,175</u>	<u>3,030,146</u>	<u>3,079,043</u>
Costs and other deductions							
Cost of products sold and operating expense (Notes 7, 15 and 20).....	1,761,777	3,099,350	3,758,001	3,962,713	4,152,001	2,062,876	2,096,835
Selling, administrative and general expense (Note 20).....	233,561	267,229	239,717	262,832	268,333	121,653	139,161
Depletion and depreciation.....	175,957	215,267	234,779	279,238	308,155	147,633	125,121
Amortization of nonproductive acreage costs.....	54,100	149,100	108,600	100,300	51,100	37,000	24,600
Provision for dry hole losses.....	53,000	89,700	78,100	104,700	96,600	55,700	51,500
Excise, property and other operating taxes (Note 20)*.....	436,516	503,826	603,525	522,648	536,827	268,862	267,615
Interest expense.....	43,780	45,143	60,255	67,940	78,111	36,651	39,760
Earnings applicable to minority interests.....	1,963	1,932	2,162	3,689	2,109	925	1,311
Total costs and other deductions.....	<u>2,760,654</u>	<u>4,371,547</u>	<u>5,085,139</u>	<u>5,304,060</u>	<u>5,493,236</u>	<u>2,731,300</u>	<u>2,745,903</u>
Earnings before taxes on income (Notes 3 and 4).....	265,081	497,229	478,071	567,784	605,939	298,846	333,140
Federal and other taxes on income (Note 5).....	83,000	201,800	240,800	282,000	271,700	141,200	167,200
Net earnings.....	182,081	295,429	237,271	285,784	334,239	157,646	165,940
Dividends on Preferred Shares.....	24,406	20,616	17,962	10,482	6,026	3,249	186
Net earnings applicable to Common Shares.....	<u>\$ 157,675</u>	<u>\$ 274,813</u>	<u>\$ 219,309</u>	<u>\$ 275,302</u>	<u>\$ 328,213</u>	<u>\$ 154,397</u>	<u>\$ 165,754</u>
Net earnings per Common Share (Note 6)							
Assuming no dilution.....	<u>\$5.01</u>	<u>\$8.26</u>	<u>\$6.30</u>	<u>\$7.17</u>	<u>\$7.86</u>	<u>\$3.73</u>	<u>\$3.82</u>
Assuming full dilution.....	<u>\$4.10</u>	<u>\$6.64</u>	<u>\$5.32</u>	<u>\$6.36</u>	<u>\$7.39</u>	<u>\$3.49</u>	<u>\$3.73</u>
Cash dividends declared per Common Share.....	<u>\$1.65</u>	<u>\$1.98</u>	<u>\$1.98</u>	<u>\$2.10</u>	<u>\$2.20</u>	<u>\$1.10</u>	<u>\$1.15</u>
Common Shares (thousands)							
Weighted average number outstanding..	31,444	33,282	34,811	38,374	41,766	41,347	43,447
Fully diluted.....	44,414	44,531	44,605	44,989	45,250	45,222	44,461
* Includes excise taxes of.....	\$ 361,334	\$ 351,298	\$ 350,909	\$ 352,639	\$ 365,559	\$ 180,629	\$ 184,129

Numbered note references are to Notes to Consolidated Financial Statements of Union.

UNION MANAGEMENT'S DISCUSSION AND ANALYSIS OF STATEMENT OF CONSOLIDATED EARNINGS

Six Months 1978 Versus Six Months 1977

Six months 1978 earnings were \$8.3 million (5.3%) higher than earnings for the first six months of 1977. This earnings increase was due to several factors. Refining and marketing operations were more profitable as a result of better refinery yields and improved marketing margins. Net earnings also benefited from lower charges for amortization of nonproductive acreage costs (primarily due to successful exploration in the Gulf of Mexico), and increased chemical earnings (primarily due to improved petrochemical sales realizations). Partially offsetting these gains were lower investment tax credits and lower domestic oil and gas production.

Lower depletion and depreciation expense reflects lower charges related to Indonesian production operations (no impact on earnings) as a result of revised production sharing agreements which stretch out the period over which exploration and production costs may be recovered.

In the second quarter of 1978, Molycorp, Inc., a wholly-owned subsidiary of Union, sold its 49% interest in Kawecki Berylco Industries, Inc. and Union sold its 100% interest in Sully-Miller Contracting Company. There was no material impact on net earnings as a result of these sales.

1977 Versus 1976

Union's net earnings for 1977 were \$334.2 million, an increase of \$48.4 million over 1976 earnings of \$285.8 million. There were no extraordinary items in either period.

Earnings improvement in 1977 was the result of four main factors:

- ☐ lower dry hole and nonproductive acreage charges primarily due to successful domestic exploration
- ☐ new natural gas production from recently found and developed fields coming on stream
- ☐ higher foreign crude oil production from successful development and production operations
- ☐ higher investment tax credits related to domestic capital expenditures

These positive factors were partially offset by declines in domestic production of crude oil and old natural gas and higher costs which were not fully recovered in product sales. Agricultural chemical earnings were also down, reflecting demand decreases due to the drought in the western states and start up costs of new plants at Kenai, Alaska.

Total revenues in 1977 (excluding excise taxes collected for state and federal governments) were \$5.7 billion — up \$200 million, or approximately four percent from 1976. This increase was mainly due to higher refined product sales prices, although competitive conditions during the year prevented the Company from raising prices to the full extent allowed under Department of Energy regulations. Refined product sales volumes were down three percent from the 1976 level, over half of which was due to the sale in late 1976 of the Company's Canadian refining and marketing operations.

The total costs and other deductions increased \$189 million, or approximately four percent over 1976. Cost of materials, supplies, salaries and wages and services were up, reflecting the continuing impact of inflation. Crude oil costs increased as it was necessary to import more foreign oil to offset declines in domestic production and due to higher entitlement costs imposed by the federal government. Depletion and depreciation charges increased due to higher foreign crude oil production and higher costs of new domestic production facilities. Partially offsetting these increases were lower provisions for dry hole losses and amortization of nonproduction acreage costs of \$57 million due primarily to successful domestic exploration operations in the Gulf of Mexico.

Income taxes were \$272 million in 1977, a decrease of \$10 million from 1976. This is mainly due to higher investment tax credits related to domestic capital expenditure programs — credits amounted to \$48.8 million in 1977 in contrast to \$32.4 million in 1976. Partially offsetting this were higher taxes due to the higher level of earnings and the full-year effect of tax law changes which eliminated statutory depletion on certain natural gas sales in 1976.

1976 Versus 1975

Union's net earnings for 1976 were \$285.8 million, an increase of \$48.5 million over 1975 earnings of \$237.3 million. There were no extraordinary items in either period.

Higher earnings in 1976 were due primarily to increased refined product sales volumes and realizations increased demand and higher sales prices for minerals, higher natural gas prices, and higher investment tax credits. These improvements were partially offset by lower domestic crude oil and natural gas production as older U.S. fields continued their decline, higher expenses attributable to inflation, lower agricultural chemical sales realizations as demand decreased due to drought conditions in the western United States, and higher exploration expense and provisions for exploratory dry holes.

Total revenues in 1976 (including excise taxes collected for state and federal governments) were \$5.9 billion, up \$308 million, or six percent, from 1975, resulting from higher sales prices as well as a four percent increase in the volume of refined product sales. The increase in sales volume reflects the general increase in domestic demand after declines in 1974 and 1975.

Total costs and other deductions increased \$219 million, or four percent, over 1975 as the cost of materials, supplies, salaries and wages, and services were up, reflecting the continuing effects of inflation. Crude oil costs in 1976 were higher even though costs associated with federal government-imposed programs, primarily import taxes, were \$87 million lower than 1975. Provisions for exploratory dry holes in 1976 were \$27 million higher than in 1975, due to higher domestic drilling activity plus higher costs. Increased interest costs of \$8 million in 1976 reflect the effect of new long-term borrowing in the early part of the year.

Income taxes rose to \$282 million in 1976, an increase of \$41 million over 1975. Principally, this is due to the higher level of earnings, but it also reflects the continuing effect of tax law changes in the past few years which eliminated statutory depletion on crude oil in 1975 and on certain natural gas sales in 1976. Investment tax credits in 1976 were \$32 million, \$11 million higher than for 1975.

BUSINESS AND PROPERTIES OF UNION

General

Union Oil Company of California, incorporated in California on October 17, 1890, is engaged principally in petroleum, chemical and mineral operations. Petroleum operations involve the exploration, production, transportation and sale of crude oil and natural gas, and the manufacture, transportation and marketing of petroleum products. Chemical operations involve the manufacture, purchase and marketing of chemicals for industrial and agricultural uses. Mineral operations primarily involve the exploration, development, mining, processing and marketing of molybdenum, columbium, rare earths and uranium. Other operations include real estate development and sales; and construction, paving and rock plant operations which were sold effective May 31, 1978.

All phases of business in which the Company engages are highly competitive. Union's business will continue to be affected not only by such competition, but by general economic developments and governmental regulations, labor conditions and technological and international developments.

Financial data, by segment, are set forth below:

1977	Revenues	Earnings Before Tax	Assets	Capital Expenditures	Depl. Depr. Amort.
			Millions of Dollars		
Petroleum.....	\$5,445.5	\$650.3	\$3,760.0	\$615.7	\$429.8
Chemical.....	568.9	61.0	545.6	140.1	7.7
Minerals*.....	117.4	18.2	172.3	32.6	12.4
Other.....	142.9	6.3	96.0	15.4	3.5
Research, Administrative, Interest and Unallocated.....	4.7	(129.9)	150.6	9.1	2.5
Intersegment Eliminations (1).....	(180.2)				
Total.....	\$6,099.2	\$605.9	\$4,724.5	\$812.9	\$455.9

*Includes equity in affiliates..... \$10.0 \$69.4

1976	Revenues	Earnings Before Tax	Assets	Capital Expenditures	Depl. Depr. Amort.
			Millions of Dollars		
Petroleum.....	\$5,258.5	\$575.2	\$3,391.9	\$608.7	\$458.7
Chemical.....	531.2	82.4	401.0	173.9	7.7
Minerals*.....	92.1	19.9	147.3	8.6	13.5
Other.....	110.6	(2.9)	89.4	21.5	3.1
Research, Administrative, Interest and Unallocated.....	9.5	(106.8)	323.8	5.1	1.2
Intersegment Eliminations (1).....	(130.1)				
Total.....	\$5,871.8	\$567.8	\$4,353.4	\$817.8	\$484.2

*Includes equity in affiliates..... \$10.5 \$64.2

(1) Intersegment revenue eliminations are mainly transfers from petroleum operations to chemical operations at prices which approximate market.

<u>1975</u>	<u>Revenues</u>	<u>Earnings Before Tax</u>	<u>Assets</u>	<u>Capital Expenditures</u>	<u>Depl. Depr. Amort.</u>
			Millions of Dollars		
Petroleum.....	\$4,970.1	\$441.1	\$3,254.5	\$599.4	\$397.2
Chemical.....	515.0	116.5	244.0	77.0	6.6
Minerals*.....	64.1	4.5	118.4	16.7	13.3
Other.....	106.9	7.7	80.7	5.5	3.3
Research, Administrative, Interest and Unallocated.....	12.1	(91.7)	176.8	2.4	1.1
Intersegment Eliminations(1).....	(105.0)				
Total.....	\$5,563.2	\$478.1	\$3,874.4	\$701.0	\$421.5

*Includes equity in affiliates.....

\$4.3 \$35.6

<u>1974</u>	<u>Revenues</u>	<u>Earnings Before Tax</u>	<u>Assets</u>	<u>Capital Expenditures</u>	<u>Depl. Depr. Amort.</u>
			Millions of Dollars		
Petroleum.....	\$4,378.0	\$508.5	\$3,012.7	\$656.2	\$426.2
Chemical.....	462.1	86.1	162.2	13.8	6.2
Minerals*.....	90.4	14.2	111.1	13.6	18.5
Other.....	82.1	2.2	77.9	16.1	2.1
Research, Administrative, Interest and Unallocated.....	(25.8)	(113.8)	189.1	1.1	1.1
Intersegment Eliminations(1).....	(118.0)				
Total.....	\$4,868.8	\$497.2	\$3,553.0	\$700.8	\$454.1

*Includes equity in affiliates.....

\$15.0 \$30.9

<u>1973</u>	<u>Revenues</u>	<u>Earnings Before Tax</u>	<u>Assets</u>	<u>Capital Expenditures</u>	<u>Depl. Depr. Amort.</u>
			Millions of Dollars		
Petroleum.....	\$2,633.8	\$284.9	\$2,541.7	\$372.0	\$258.7
Chemical.....	290.1	33.0	135.9	10.7	6.2
Minerals*.....	69.4	8.6	104.8	7.8	15.0
Other.....	79.6	4.0	52.7	5.3	2.1
Research, Administrative, Interest and Unallocated.....	9.1	(65.4)	167.7	2.4	1.1
Intersegment Eliminations(1).....	(56.3)				
Total.....	\$3,025.7	\$265.1	\$3,002.8	\$398.2	\$283.1

*Includes equity in affiliates.....

\$11.4 \$22.7

(1) Intersegment revenue eliminations are mainly transfers from petroleum operations to chemical operations at prices which approximate market.

Information regarding the geographic composition of Union's revenues, earnings before taxes on income and assets appears on page 70 of the accompanying financial statements.

Union anticipates capital expenditures of approximately \$800 million in 1978.

Sales by classes of similar products were as follows:

	1973	1974	1975	1976	1977
	Millions of Dollars				
Petroleum products.....	\$1,241.3	\$1,916.1	\$2,232.2	\$2,519.1	\$2,739.2
Crude Oil.....	695.7	1,587.0	1,857.0	1,718.0	1,579.3
Chemicals.....	285.1	454.1	507.6	522.0	560.8
Natural gas.....	111.3	148.0	175.2	239.2	271.3
Natural gas liquids.....	50.9	120.4	95.0	116.1	130.3
Minerals.....	57.5	75.4	59.1	81.4	106.8
Other.....	57.8	74.4	76.0	84.0	89.6
Excise taxes.....	361.3	351.3	350.9	352.6	365.6
Total sales.....	\$2,860.9	\$4,726.7	\$5,353.0	\$5,632.4	\$5,842.9

PETROLEUM OPERATIONS

Domestic Oil and Gas Exploration and Production Activities

Union is exploring in all major oil areas of the United States. At year end 1977, Union held approximately 3.5 million net acres of unproved lands in 28 states. Most of these unproved lands were located in Alaska, Texas, Utah, New Mexico, California and Arkansas.

At year end 1977, Union also held 990,000 net acres of proved oil and gas lands in the United States which were located in 21 states. Most of this proved land was located in Louisiana, Texas, California, Oklahoma and Montana. Federal offshore exploration and production areas are included in the contiguous states.

During 1977, Union spent \$357 million for the exploration and development of domestic oil and gas. Of this amount, \$74 million was spent in acquiring leases in federal offshore waters at competitive sales during the year. Most of this, \$59 million was spent for varying interests in eight tracts in the Gulf of Mexico. The other main acquisition was interests in four tracts in Alaska's lower Cook Inlet at a cost of \$14 million. In April 1978, Union acquired interests in four more tracts for \$20.9 million in a federal lease sale of land offshore from Texas and Louisiana.

A major thrust of Union's exploration and development activity in 1977 was on previously acquired acreage and this trend continues in 1978. Extensive development, platform construction and pipeline installation activities were carried on during the last 18 months in the Gulf of Mexico to bring the Company's discoveries to production. Development activity also continued in the Chunchula field in Alabama where approximately 30 wells are producing through test facilities and a full-sized extraction plant is expected to be completed in late 1979. In addition, Union extended the Chunchula field in April 1978 by drilling an additional well.

During 1977, the Company set Platform "C" in the Dos Cuadras field of the Santa Barbara Channel. The platform, built in 1968 but not installed due to litigation, permitted further development of the field in the first half of 1978. Union also participated in a new gas discovery in the Santa Barbara Channel in early 1978. The Company's capital expenditure program also emphasized increased recovery of known reserves through secondary and tertiary procedures principally in California. At year end 1977, Union was using or testing a wide variety of enhanced recovery methods in some 17 fields in four states.

Union's principal U.S. crude oil production comes from fields in Texas (25%), California (27%), Alaska (21%) and Louisiana (16%). Approximately, 55 percent of the Company's domestic natural gas production is from onshore and offshore Louisiana fields, with most of the balance coming from Texas, Alaska, California, Oklahoma and New Mexico.

Union has an ownership interest in 53 gas processing plants in the United States and operates 16 of these.

Foreign Oil and Gas Exploration and Production Activities

Union is participating in exploration and/or production activities in 16 foreign countries.

In Canada, Union Oil Company of Canada (an 87% owned subsidiary) holds approximately 5.3 million acres of unproved lands, 304,000 acres of proved lands, and varying interests in eight natural gasoline plants located near major gas fields. Union Oil Company of Canada's crude oil production comes mainly from fields in Alberta and Saskatchewan, while natural gas production comes mainly from fields in British Columbia and Alberta. In 1977, most oil and gas exploration and development activities were concentrated in Alberta and British Columbia. Union Oil Company of Canada is active in the West Pembina oil and gas area where recent drilling by others has been successful; and the Company holds an interest in two blocks where it expects to commence drilling during the latter part of 1978. The Company participated in drilling several wells in the Alberta foothills, where it has acquired several large land blocks, and a significant gas discovery was made in 1977.

In the Persian Gulf, offshore Iran, a Union subsidiary has a 12½ percent interest in an agreement currently covering 104,000 acres where two separate discoveries have been made. As the result of a new development program, and the addition of a gas-lift system completed in early 1978, Union's share of production from one of these discoveries, the Sassan field, is currently about 25,000 barrels per day. The other discovery is being evaluated as to its commercial potential.

Union has a 31¼ percent interest in two blocks and a 21 percent interest in a third block in the British sector of the North Sea. In addition, the Company has a 15½ percent interest in another block in the British sector of the Atlantic Ocean. On Block 2/5, in which Union's interest is 31¼ percent, the Heather field was discovered in 1973, with wells producing on test at rates as high as 9,000 barrels of crude oil daily. Union concluded an agreement in 1976 to participate in the Ninian pipeline and Sullom Voe terminal facilities for receiving production from the Heather field. Installation of the platform commenced in 1977, drilling therefrom began in June 1978 and production began in October, 1978. By agreement, British National Oil Corporation (BNOC) has rights to purchase at world market prices 51 percent of Union's share of crude oil production from Block 2/5 commencing about two years after the start of production.

In Indonesia, Union now has production from five fields in the East Kalimantan contract area: Attaka, Melahin, Kerindingan, Sepinggan and Yakin. The most important of these remains at Attaka field, where total production, including liquids extracted from the gas stream, reached a new high of 121,700 barrels per day in December 1977, of which Union's gross interest was 60,800 barrels per day.

During 1977, the Indonesian government proposed methods to conform its tax laws so that Indonesian income taxes paid under production sharing agreements will continue to qualify for foreign tax credit treatment after 1977 under rulings announced by the United States Internal Revenue Service. The proposals have been formally approved by the Internal Revenue Service and promulgated by the Indonesian government.

Offshore Thailand, Union has found oil and/or gas on four structures in the Gulf of Thailand. An agreement to dedicate for sale at least a trillion cubic feet of natural gas from one of these structures, held 80 percent by Union, has been consummated. If the extent of the field is confirmed by development drilling this year, platform construction will begin next year with production scheduled for 1982.

In August 1978, Union announced a gas discovery on Block L-11 in the Netherlands sector of the North Sea. Additional drilling will be necessary to evaluate the commercial potential of the discovery.

In August, 1978, Union was granted a concession license by the government of Egypt to explore for petroleum in the Gulf of Suez.

Varying exploratory activities also continue in western offshore Ireland, Japan, the Egyptian Red Sea and Pakistan. Substantial exploratory licenses are held in each of these areas.

In light of the changing relationships between international oil companies and host governments in the foregoing and other parts of the world, including changes by oil producing countries in posted or tax-reference prices for crude oil, increases in tax rates (sometimes retroactively) and demands for increased participation in the ownership of operations, it is recognized that Union's activities in these and other foreign countries may be curtailed or terminated as a result of Union's inability to recover the costs of continued exploration, development and production or to recover an adequate return on its investment during the coming years.

Operating and Reserve Statistics

Set forth below are consolidated operating and reserve data for the periods indicated.

Proven and undeveloped oil and gas acreage as of December 31, 1977:

	Proven Acreage		Undeveloped Acreage	
	Gross	Thousands of Acres Net	Gross	Net
United States.....	1,119	990	4,055	3,460
Canada.....	610	304	8,487	5,267
Middle East.....	70	9	2,799	2,769
Far East.....	16	13	48,176	31,961
Other Foreign.....	32	4	4,910	3,865
Total.....	1,847	1,320	68,427	47,322

Net production of crude oil, condensate, natural gas and natural gas liquids after deduction of royalties and interests of others for the periods indicated:

	1973	1974	1975	1976	1977
Crude Oil (barrels per day)					
United States.....	235,222	220,523	209,649	193,726	175,684
Canada.....	29,249	22,445	15,540	14,611	13,570
Middle East.....	23,020	24,328	21,934	19,021	22,768
Far East*.....	36,415	50,708	57,365	76,044	79,769
Other Foreign.....	7,893	6,576	4,050	—	—
Total.....	331,799	324,580	308,538	303,402	291,791
Condensate (barrels per day)					
United States.....	15,052	13,833	12,100	11,745	11,925
Canada.....	3,811	2,828	2,623	2,044	1,744
Total.....	18,863	16,661	14,723	13,789	13,669
Natural Gas (Mcf per day)					
United States.....	1,466,255	1,463,331	1,384,339	1,332,526	1,231,279
Canada.....	63,952	71,770	53,193	54,852	55,412
Other Foreign.....	3,854	4,724	4,683	3,578	2,855
Total.....	1,534,061	1,539,825	1,442,215	1,390,956	1,289,546
Natural Gas Liquids — Leasehold Ownership (barrels per day)					
United States.....	16,252	16,526	14,590	13,376	14,471
Canada.....	1,470	1,328	1,365	1,346	1,157
Total.....	17,722	17,854	15,955	14,722	15,628
Natural Gas Liquids — Plant Ownership (barrels per day)					
United States.....	17,847	17,492	18,031	16,998	14,077

* Includes gross production for Indonesia under production sharing agreement.

Net proved developed and undeveloped oil and gas reserves as of December 31, 1977:

	<u>Developed</u>	<u>Undeveloped</u>	<u>Total</u>
Crude Oil and Condensate (thousand barrels)			
United States.....	448,486	116,985	565,471
Canada.....	64,877	664	65,541
Middle East.....	62,556	34,625	97,181
Far East*.....	143,626	—	143,626
Other Foreign.....	—	41,016	41,016
Total.....	719,545	193,290	912,835
Natural Gas (Wet) (billion cubic feet)			
United States.....	4,649	1,700	6,349
Canada.....	366	126	492
Other Foreign.....	17	—	17
Total.....	5,032	1,826	6,858

* Includes gross reserves for Indonesia under production sharing agreement.

During 1977 and early 1978, reserve estimates were filed with the Federal Energy Regulatory Commission, the Federal Trade Commission and the governments of The People's Republic of China, Great Britain, Indonesia, Iran and Norway. Such reserve estimates, although as of differing dates, were determined on bases that were consistent with the estimates reported above.

Based on historical performance, the Company currently estimates that 293,000 barrels per day of crude oil and condensate and 1,264,000 mcf per day of natural gas could be produced from proved developed reserves as of December 31, 1977 using presently installed equipment under existing economic and operating conditions for the year 1978.

At December 31, 1977, the approximate number of Union's producible oil and gas wells were as follows:

Oil	
Gross Wells.....	22,637
*Net Wells.....	8,508
Gas	
Gross Wells.....	2,544
*Net Wells.....	1,087

* Net wells represent the cumulative total of Union's ownership interest in gross wells.

At December 31, 1977, the Company had 587 gross and 347 net wells with multiple completions. In addition, at year-end Union was in the process of drilling 69 gross oil and gas wells, the equivalent of 35 net oil and gas wells.

Net well completions during the last five years were as follows:

	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>
Net exploratory wells completed.....	11	15	14	28	25
Net development wells completed.....	141	172	152	183	278

Domestic Refining

Union owns and operates five refineries in the United States which manufacture a complete line of high-quality petroleum products and certain basic chemicals, including automotive and aviation gasolines, liquefied petroleum gases, naphthas and solvents, jet and turbine fuels, kerosene, diesel oils, heating oils, automotive and industrial lubricating oils, greases, waxes, asphalts, residual fuel oils and petroleum cokes. Rated capacities of crude oil processing units are summarized below:

<u>Refinery</u>	<u>Barrels Per Calendar Day</u>
California	
Los Angeles.....	108,000
San Francisco.....	70,000
Santa Maria*.....	41,000
Illinois	
Chicago.....	151,000
Texas	
Beaumont.....	120,000
	<u>490,000</u>

* Makes unfinished products for further processing at the Company's San Francisco Refinery.

Average total input to crude oil processing units in barrels daily was 465,000 in 1973, 439,100 in 1974, 456,500 in 1975, 440,300 in 1976, and 451,900 in 1977.

Foreign Refining

In the Republic of Korea, Kyung In Energy Company, Limited, a 50 percent owned affiliate of a Union subsidiary, operates a 60,000 barrel-a-day capacity refinery. Crude oil throughput at the refinery increased 28 percent over 1976 to 50,800 barrels per day. Kyung In also operates a 325,000 kilowatt thermal power plant which furnishes 30 percent of the power needs of the city of Seoul and the surrounding area. Union's investment is substantially insured by Overseas Private Investment Corporation, a United States Government corporation, against certain political risks including expropriation.

Petroleum Transportation

A substantial part of Union's crude oil production and purchases is transported to the Company's refineries by some part of the 10,100 miles of raw material pipelines which Union owns, wholly or partially, or leases. The Company also owns or has an interest in approximately 7,300 miles of refined product pipelines.

Union Alaska Pipeline Company, a wholly-owned subsidiary, has a 1.66 percent participation interest in the Trans-Alaska Pipeline System which commenced operation in 1977 to transport crude oil from the North Slope area of Alaska to the port of Valdez in Alaska.

The Company's marine fleet at year-end consisted of 15 tankers and supertankers, plus other smaller vessels, all held under long-term charter agreements or owned directly or through subsidiaries.

During 1977, Union chartered a 264,000 ton very large crude carrier and four 85,000 ton tankers to provide transportation of foreign crude oil to help meet the Company's domestic refinery requirements and improve the efficiency of the Company's transportation system.

Union also has an extensive fleet of product tank trucks.

Domestic Petroleum Marketing

Union's products are distributed in 42 states under the "Union 76" trade name. Marketing was conducted through approximately 1,000 wholesale marketing and bulk distributing stations and approximately 14,000 service stations and other retail outlets at the end of 1977 including over 300 auto/truckstops, many of which are located on the interstate highway system. Substantially all service stations and other retail outlets, including units owned and leased by Union, are operated by independent dealers. The wholesale marketing stations distribute products to the Company's retail outlets, sell to others for resale, and sell directly to consumers. Through retail outlets, the Company also sells branded tires, batteries and other automobile accessories. Premium motor oils and greases are also marketed through wholesale distributors and to independent marketers throughout the U.S. and in many foreign countries.

During the last 18 months, Union sold its marketing properties in Wyoming and Montana and began the process of selling its properties in Utah and southeastern Idaho. It had limited sales in these marketing areas. In the east, reduction of investments began in low penetration markets in order to concentrate on growth markets where Union has strong representation.

Foreign Petroleum Marketing

Union subsidiaries market crude oil and petroleum products to customers in Japan, Korea and other countries outside the United States. Union had a substantial minority interest in the Maruzen Oil Company, Ltd., a major Japanese refiner and marketer, which Union sold to Japanese interests in October, 1978. During 1977, Union's overseas marketing subsidiary, Unoco, sold to Maruzen approximately 97,000 barrels per day of crude oil produced by Union and others.

Domestic Geothermal Activities

Union has leasehold interests in approximately 21,000 acres in the Geysers Geothermal Field of northern California, the only commercial geothermal project in the United States. Steam from this field is sold to a public utility which has installed generating capacity of over 520,000 kilowatts. Two 110,000 kilowatt power plants are under construction, with one scheduled for completion in 1978 and the other in 1979. To provide steam for these new plants, nine wells were drilled in 1977 and drilling is continuing in 1978.

The Company is also exploring for new geothermal reserves elsewhere in the western United States. In California's Imperial Valley, Union has a prominent position in three out of four of the major geothermal resources that have been delineated. Exploration and testing of Union's properties in two of these areas is in an advanced stage and agreements have been negotiated to sell the geothermal energy to public utilities which would begin operation with 10,000 kilowatt power plants.

In New Mexico, the U.S. Department of Energy has selected a proposal by Union and the Public Service Company of New Mexico to develop and operate the first full scale geothermal hot water project in the country. A definitive agreement is being negotiated. Subject to negotiation of a contract, the 50,000 kilowatt project would cost approximately \$100 million, of which federal funds would account for about one-half.

Foreign Geothermal Activities

Operating as a contractor for the Philippine government-owned National Power Company, Union is developing two major geothermal fields on Luzon Island. Construction is underway on two electrical power plants at the Tiwi field with a combined capacity of 220,000 kilowatts and for one plant at the Los Banos field with capacity of 110,000 kilowatts. The first plant in the Tiwi field is scheduled to go into operation in 1978 and in the Los Banos field in 1979.

Geothermal Lands, Reserves and Production

As of December 31, 1977 the Company held 346,600 net acres of geothermal lands, of which over 4,300 acres, all in the Geysers Geothermal Field, are proved with respect to production. Most of the unproved acreage was located in New Mexico, California, Nevada and Utah. At year end, the Company had 94 net producible geothermal wells, located primarily in the Geysers Geothermal Field, New Mexico, and the Philippines.

Geothermal reserves and production for the last five years were as follows:

	1973	1974	1975	1976	1977
Net reserves at year-end* —					
Million megawatt hours.....	40	56	64	87	110
Million equivalent oil barrels**.....	61	84	96	131	165
Net daily production — megawatt hours.....	900	1,800	3,000	3,600	3,600

*Reserves are located in the Geysers Geothermal Field and in the Philippines.

**Based upon the number of barrels of oil required to generate an equivalent amount of electricity.

Chemical Operations

Early in 1978, the Union Chemicals Division was formed combining the operations of the Amsco Division and Collier Carbon and Chemical Corporation. The Chemical Division's operations are divided into three product groups: nitrogen, petrochemical and carbon.

The nitrogen group manufactures, purchases and markets a wide variety of chemical fertilizers and industrial chemicals. Union believes it is the largest producer of ammonia on the West Coast of the United States (including Alaska) and one of the largest in the United States. It operates ammonia and urea plants located at Brea, California and Kenai, Alaska. Recent completion of new plants at Kenai, Alaska increased Union's ammonia and urea production capacity to 4,100 and 2,850 tons per day, respectively. Natural gas, the prime raw material for these plants, is supplied from the Company's extensive Alaskan reserves. Enlarged urea and ammonia storage and terminal facilities were also completed in connection with the new plants.

A new ship, named the "S.S. Cornucopia", designed to transport liquefied ammonia from Kenai to the West Coast commenced service in the spring of 1978. In addition, Union's Chemical Division has two barges on long-term lease for delivery of urea, and two refrigerated river barges to transport ammonia up the Columbia River.

The petrochemical group markets hydrocarbon solvents and petrochemicals manufactured by Union's refineries, manufactures and markets polymer emulsions and hot melt adhesives, and sells chemicals and other products purchased from others. A new hot melt adhesives plant at Tucker, Georgia was in full operation in early 1978 thereby doubling the Company's production capacity for these products.

The carbon group manufactures, purchases and markets a wide range of petroleum coke and high-strength graphites.

Mineral Operations

On July 29, 1977 MolyCorp, Inc. was acquired by Union. MolyCorp, now operating as a wholly-owned subsidiary, is believed by Union to be the world's largest producer of rare earth products and an important producer of molybdenum. MolyCorp has a 33 percent interest in a Brazilian company, Companhia Brasileira de Metalurgia e Mineracao, a producer of columbium. Early in 1978, MolyCorp sold its 49 percent interest in Kawecki Berylco Industries, Inc., a leading producer of specialty metals and chemicals.

Molycorp's rare earth operations are based upon a high-grade bastnaesite ore deposit at Mountain Pass, California and processing plants at York, Pennsylvania; Louviers, Colorado and Mountain Pass. Based upon Molycorp's average annual production of rare earth concentrates during 1976 and 1977, Union estimates that proven ore reserves are adequate for at least fifteen more years of continued operation. The major uses for rare earth products are in television and fluorescent lighting phosphors, petroleum cracking catalysts, glass, iron and steel.

Molycorp's open pit molybdenum mine at Questa, New Mexico is almost depleted. It is expected to be phased out during 1978 but milling operations and molybdenum production will continue into 1980 using ore which has been stockpiled.

Over the past several years, exploratory drilling and feasibility studies conducted by Molycorp and a partner established a larger area of molybdenum mineralization at Questa. Late in 1977, Molycorp agreed with its partner to dissolve the partnership and full ownership of the properties now rests with Molycorp. Molycorp has conducted technical and feasibility studies relating to the development of a large scale underground mining operation with production beginning in the early 1980's. No final decision on development of such a mine has been made.

Molybdenum processing operations are conducted at plants located in Washington and York, Pennsylvania. Molybdenum is used in the production of stainless and alloy steels, non-ferrous alloys, pigments, lubricants and catalysts.

Molycorp's annual production of minerals is as follows — thousand pounds:

	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>
Molybdenum in concentrates.....	10,866	11,200	11,114	11,509	8,130
Rare earth concentrates.....	38,682	43,883	32,936	28,745	33,861

Minerals is developing a \$45 million uranium mining and milling complex in Sweetwater County, Wyoming. Mill construction work is pending issuance of federal and state permits. Difficulties and delays have been encountered in obtaining these permits. It is anticipated that they will be obtained during the latter part of 1978 or early 1979. See BUSINESS AND PROPERTIES OF SILVER BELL — the Sweetwater Project at Page 47. A feasibility study on a project to mine and mill uranium from deposits approximately 33 miles northwest of Wickenburg, Arizona was completed in July 1978. This project is known as the Anderson Project. Minerals estimates that 9,162,000 pounds of recoverable proven reserves with an average grade of 0.072% U_3O_8 (using a mill recovery factor of 89%) can be commercially mined. Final plans and schedules for mine development have not been determined, nor has a mining permit been obtained.

Union has a 25 percent interest in Cyprus Pima Mining Company which owns a large open pit mine south of Tucson, Arizona. The mine was closed in September 1977 due to the depressed price of copper.

Union's equity in Cyprus Pima's earnings was a \$2.2 million loss in 1977 compared to \$.8 million gain in 1976.

Other Operations

In Colorado, Union has 20,000 acres of patented oil shale lands which it believes are a potential source of petroleum supply. The Company also has unpatented placer mining claims covering an additional 20,000 acres of oil shale lands (currently being contested by the Federal Government) and 10,000 acres of associated lands including water rights and areas for disposal of spent shale. Early in 1978, the Company announced plans to build a \$100 million experimental oil shale project if Congress creates the necessary investment climate for an oil shale industry. The project would utilize a Union-developed surface retort capable of processing 10,000 tons per day of oil shale to extract 9,000 barrels

a day of raw shale oil. Initially, Union plans to sell the shale oil for direct use as boiler fuel in electrical generating plants.

Union, through a wholly-owned subsidiary, develops and markets real estate for industrial, commercial and residential uses on surplus and purchased land.

None of the activities described in this section or in the preceding section entitled "Mineral Operations" is considered to be material to Union, either in relation to its total consolidated assets or as a contributor to Union's consolidated earnings, currently or for the foreseeable future.

Research

Union has a modern research center located at Brea, California where research scientists, engineers and supporting personnel are currently working to develop new and improved products, processes and techniques for use in every phase of the petroleum business and in pertinent areas of the chemical industry.

Union owns some 1,700 active patents in the United States and abroad which are generally available to others under revenue producing licensing agreements.

Union's expenditures for research and development approximated \$17.1 million and \$17.2 million in 1977 and 1976, respectively.

Employees

At June 30, 1978, Union had 16,191 employees, many of whom are covered by labor agreements with various unions. In January 1977, an agreement was reached with the Oil, Chemical and Atomic Workers International Union on a number of contracts covering employees in all refineries and several large distribution terminals. Agreement was also reached early in 1977 with the International Union of Petroleum Workers on a number of contracts covering production, pipeline, telecommunications and certain marketing employees. In March 1978, a new three-year contract was negotiated with the Oil, Chemical and Atomic Workers International Union covering workers at MolyCorp's Questa, New Mexico mill and mine complex.

All these agreements provide for substantial wage and fringe benefit increases.

Government Regulation

The petroleum industry has been subject to mandatory allocation and price control regulations established by the Department of Energy under the authority of the Emergency Petroleum Allocation Act of 1973. This authority was continued and extended by the Energy Policy and Conservation Act of 1975, the Federal Energy Administration Authorization Act of 1977, and the Department of Energy Organization Act of 1977. The regulations have established maximum prices permissible for domestic crude oil and certain petroleum products. Increased costs relating to refining and marketing activities are allowed to be passed through to product prices in a specified manner, and subject to certain conditions. The regulations reduce the price Union receives for a portion of its crude oil, and have created additional administrative expense. The regulations, in some instances, may adversely affect Union's ability to recover increased costs. Union's ability to recover increased costs may be further restricted by market conditions.

Regulations promulgated under the 1973 and 1975 Acts are mandatory for 40 months and may be imposed at the discretion of the President thereafter. The Company is unable to predict how long the regulations may remain in effect, or what effect such program (or any modification thereof) may ultimately have on its business until September 30, 1981.

Other provisions of the 1975 Act give the President authority to be the sole importer and purchaser of crude oil and petroleum product imports, establish refinery operations levels, force

conversion to coal, control exports of petroleum products, natural gas and petrochemical feedstocks, order allocations of supplies, determine production rates on federal lands, and establish a strategic petroleum reserve. The President is required to establish contingency plans for energy conservation and rationing.

Legislation which will modify the present price controls on domestic natural gas production was recently approved by Congress. This legislation is extremely complex, creating many different tiers of natural gas prices. In general, higher prices will be allowed for some gas produced in the future although all gas will remain under control, at least until 1985. Based upon Union's preliminary analysis, the legislation is not expected to have an adverse impact on Union's business or financial condition.

All sales of natural gas to interstate pipeline companies for resale are subject to price regulation by the Federal Energy Regulatory Commission of the Department of Energy under the Federal Natural Gas Act. Certain interstate crude oil pipeline subsidiaries of Union are subject to regulation as common carriers by the Federal Energy Regulatory Commission. Union, as lessee from the United States, is subject to regulations of the United States Department of the Interior under the Outer Continental Shelf Lands Act, which regulations have been amended to impose stricter controls on operations and to establish responsibility for cleanup and damages in the event of oil spills and under the Mineral Leasing Act of 1920 covering onshore lands. In addition, state regulations, which have been amended to impose stricter controls, are imposed on both state owned and privately owned lands.

A number of federal and state legislative proposals would, if enacted, significantly adversely affect the petroleum industry, including Union. These proposals involve, among other things, the imposition of additional taxes, the divestiture of certain operations, an excess profits tax, land-use controls, and other restrictive measures.

Environmental Matters

Compliance with federal, state and local laws and provisions regulating the discharge of materials into the environment or otherwise specifically relating to the protection of the environment is having an increasing adverse impact on Union's operations. Federal legislation applicable to Union's operations includes the Federal Water Pollution Control Act Amendments of 1977 which impose increased liability for oil spills or discharges in navigable waters upon Union or persons responsible for such an occurrence and the Federal Clean Air Act Amendments of 1977 which relate to the reduction or elimination of air emissions. Various state and local governments have adopted or are considering the adoption of such laws and regulations.

In 1977, Union spent approximately \$29 million in order to comply with, and where technology exists, exceed applicable federal and state environmental regulations. Capital expenditures in 1978 related to the protection of the environment are estimated at \$32 million. Union expects such expenditures to continue in future years, but they are not expected to be significant relative to Union's capital structure and normal capital expenditure programs. Although Union believes that it will be able to meet the requirements of existing laws and regulations, changes in operating procedures and the acquisition of additional pollution control facilities may be necessary to meet regulatory standards in the future.

Union has been a party to a number of administrative and judicial proceedings arising under federal, state and local provisions relating to environmental protection. Such proceedings include actions for civil penalties or fines for alleged violations of such statutes and ordinances. Approximately 15 administrative and judicial proceedings are pending. Approximately 90 applications for National Pollutant Discharge Elimination System permits are pending, as are 8 appeals related to the issuance of such permits.

Union does not believe that these proceedings are, in the aggregate, material to its business or financial condition and does not anticipate any significant curtailment or interruption of its major operations as a result of any alleged violation of environmental control laws or regulations. Union has also joined or intervened with the American Petroleum Institute and other oil companies in actions relating to Environmental Protection Agency effluent limitation guidelines, air quality regulations, ammonia fertilizer guidelines and benzene regulations.

Pending Legal Proceedings

Union, along with other major oil companies, is a defendant in separate civil antitrust suits brought by the states of Florida, Connecticut, Kansas, California, Arizona, Oregon and Washington filed between 1973 and 1977. These actions charge violations of federal and state monopoly and restraint of trade statutes in connection with exploration, production, refining and marketing of petroleum and petroleum products. The suits all seek treble damages, in unspecified amounts, on behalf of the states and classes of other consumers of petroleum products, injunctive relief and divestiture of the exploration and production segments of the defendants' businesses. The Judicial Panel on Multidistrict Litigation has transferred the above-listed actions, and the action brought by the City of Long Beach described below, to the United States District Court for the Central District of California for consolidated or coordinated pretrial proceedings. (The consolidated pretrial proceedings are No. MDL-150.)

The City of Long Beach is a plaintiff, and the State of California has intervened, in a suit filed on June 27, 1975, in the United States District Court for the Central District of California (No. 75-2232 WPG). The complaint alleges violations of federal and state antitrust statutes arising out of exploration, development and production of crude oil in tidelands and other lands in the Long Beach, California, area.

Union and its subsidiary, Collier (which was merged into Union in early 1978) together with six other fertilizer marketers and producers, are defendants in civil antitrust actions brought by the States of Alaska, Idaho, Montana, Washington, and Oregon and individual residents of the State of Oregon. The suits were filed in the United States District Court for the Eastern District of Washington at Spokane on June 11, 1975, by the States of Idaho (No. C-75-120), Montana (No. C-75-119), and Washington (No. C-75-118) and the individual plaintiffs, by the State of Alaska (No. C-75-156) on July 22, 1975, and by the State of Oregon (No. C76-287) on July 1, 1976. The suits allege violation of federal and state antitrust statutes arising out of the sale of fertilizer in the northwest region of the United States and seek treble damages, in unspecified amounts, injunctive relief and divestiture of the ownership and operation of certain marketing and distribution outlets.

On December 24, 1970, Union was served with a summons and complaint in an action filed in the Superior Court for Los Angeles County, California, entitled *Philip Ruben and Phyllis Ruben, et al. v. Union Oil Company of California* (No. LASC4C 992907). Plaintiffs sued individually and on behalf of members of a class described as residents of the State of California who have charge accounts with defendant and who have made payments of interest of more than ten per cent per annum within the preceding four-year period. Plaintiffs sought an injunction against further assessment by Union of finance charges on its monthly credit card billings in excess of ten per cent per annum and damages in an unspecified amount. Plaintiffs' claims were denied by the trial court, and the decision has been appealed.

On March 5, 1974, Union was served with a petition in an action entitled *Mecom v. Union Oil Company of California, et al.*, brought in the District Court of Harris County, Texas (No. 973,515). Plaintiff claims rights in concessions, rights or contracts relating to the production, exploration and marketing of oil and gas within a certain geographic area of the Middle East and an accounting.

Union is named as a defendant in actions brought by purported representatives of classes of lessee and sublessee gasoline dealers (*Bogosian v. Union et al.* and *Parisi v. Union et al.*) in the United States District Court for the Eastern District of Pennsylvania. The complaints which were served on May 19, 1971 and October 26, 1971, respectively, allege violations of Sections 1 and 2 of the Sherman

Anti-Trust Act and demand an undetermined amount of damages to be trebled; injunctive relief; and divestiture of those portions of defendants' businesses which involve the acquisition of real estate by purchase or lease and the leasing or subleasing of such real estate for use as retail gasoline service stations, plus costs and attorneys' fees. Orders entered in June, 1975 dismissing said class actions were vacated by the United States Court of Appeals for the Third Circuit and the actions were remanded to the District Court for further proceedings.

A summons and complaint were served upon Union in an action entitled *Evanson, et al. v. Union and Department of Energy* (No. C4-75-671, U.S. District Court for the District of Minnesota — Fourth Division) on January 5, 1976. Plaintiffs, individually and as representatives of a class of car washes, seek reinstatement of discounts in existence on May 15, 1973 and the return of discounts withdrawn after September 1973. The United States Department of Energy intervened in March 1978 and was realigned as a plaintiff. The complaint in intervention alleges that Union improperly eliminated certain discounts to customers of gasoline and oil during the period from August 19, 1973 to March 31, 1978; that Union's base prices were improperly computed; and that Union overcharged some customers. The Department of Energy requested that Union be required to recalculate its base prices, refund overcharges, be enjoined from further violations of the Emergency Petroleum Allocation Act of 1973, pay civil penalties for each separate pricing violation and pay costs of litigation.

The allegations of unlawful practices in these actions have been denied and the actions will be vigorously defended by Union. Management believes the foregoing actions can be successfully defended; in view of the broad and largely undefined relief sought, however, an adverse decision could have a significant effect upon the scope and nature of Union's operations.

MANAGEMENT OF UNION

Directors

The Board of Directors of Union consists of 14 members who are elected to hold office until the next annual meeting of shareholders and until their successors are duly elected and qualified. The following table sets forth certain information with respect to Union's directors, including the number of Union Common Shares owned beneficially as of June 30, 1978. None of the directors owns any other equity securities of Union. As of June 30, 1978, no director or officer of Union owned any shares of Silver Bell or Mancos of record or beneficially.

Name	Principal Occupation(a)	Year First Became Director	Common Shares Beneficially Owned(b)
William F. Ballhaus	President, Beckman Instruments, Inc. <i>Analytical instruments, systems and components</i>	1977	500
Claude S. Brinegar	Senior Vice President of the Company	1968	2,064
Ray A. Burke	Senior Vice President of the Company	1966	16,561
Robert Di Giorgio	Chairman and Chief Executive Officer, Di Giorgio Corporation <i>Multi-market company active in manufacturing and distributing consumer goods and forest products</i>	1958	300
William H. Doheny	Personal Investments	1954	152,556
Prentis C. Hale	Chairman, Executive Committee, Carter Hawley Hale Stores, Inc. <i>Retail department stores</i>	1956	372

<u>Name</u>	<u>Principal Occupation (a)</u>	<u>Year First Became Director</u>	<u>Common Shares Beneficially Owned (b)</u>
Lewis B. Harder	Chairman of the Board, Molycorp, Inc. <i>A wholly-owned subsidiary</i>	1977	200
Fred L. Hartley	Chairman and President of the Company	1960	36,179
T. C. Henderson	Vice President of the Company	1976	9,530
Donald P. Jacobs	Dean, Graduate School of Management, Northwestern University	1972	100
William S. McConnor	Senior Vice President of the Company	1973	3,186
Peter O'Malley	President, Los Angeles Dodgers, Inc. <i>Professional baseball club</i>	1976	200
Charles F. Parker	Financial Consultant to the Company	1963	19,355
Donn B. Tatum	Chairman of the Board, Walt Disney Productions <i>Entertainment and recreational activities</i>	1977	1,000

(a) The offices in this column refer to Union unless otherwise stated.

(b) Reported by Directors as of June 30, 1978, and includes shares held in the name of wives, minor children or relatives as to which beneficial ownership is disclaimed. Does not include shares held by the Trustee under the Employees Profit Sharing Plan and Employee Stock Ownership Plan, as further discussed in Note 2 under "Remuneration" below.

Remuneration

The following table sets forth information concerning the remuneration paid to the three highest paid officers and all directors who received aggregate direct remuneration in excess of \$40,000 in 1977:

<u>Name</u>	<u>Capacity in which Remuneration was Received</u>	<u>Aggregate Direct Remuneration</u>	<u>Incentive Compensation Cash Awards for 1977(1)</u>	<u>Company Contributions Under Employees Profit Sharing Plan and ESOP(2)</u>
Fred L. Hartley	Chairman and President	\$ 328,333	\$107,500	\$13,232
Claude S. Brinegar	Senior Vice President	167,333	57,000	7,369
Ray A. Burke	Senior Vice President	167,333	42,500	7,369
Lewis B. Harder	Chairman of the Board, Molycorp, Inc.	70,995(3)		
T. C. Henderson	Vice President	87,833	22,500	4,548
William S. McConnor	Senior Vice President	145,333	42,500	6,567
Charles F. Parker	Senior Vice President	170,333	50,000	7,478
Directors and Corporate Officers as a group, 29 in number, including those listed above		2,162,535		

(1) In addition to the cash awards shown above which were paid in 1978, but applicable to 1977 operations, cash awards were made in the amount of \$221,550 to eleven other present officers and \$1,949,510 to other key employees.

Under the revised Incentive Compensation Plan (the "Plan") approved by the shareholders in 1968, annual awards may be granted to a limited number of executives and key employees at the discretion of the Compensation Committee of the Board of Directors, which is comprised entirely of non-employee directors. Awards made in the current year are applicable to the prior year's operations and may be in the form of cash and deferred compensation. The deferred compensation portion of the Plan provides for payment over various intervals and may extend up to ten years following retirement. The right to payment of deferred awards will be forfeited in the event of voluntary resignation, early retirement or discharge for cause.

Deferred awards applicable to 1977 (made in 1978) and the total deferred amounts accrued but unpaid are, respectively: \$201,254 and \$702,670 to Mr. Hartley, \$45,600 and \$45,600 to Mr. Brinegar, \$77,388 and \$260,510 to Mr. Burke, \$42,947 and \$153,611 to Mr. Henderson, \$71,898 and \$216,921 to Mr. McConnor, \$86,715 and \$272,108 to Mr. Parker, and \$135,462 and \$320,623 to eleven other present officers, and \$1,009,729 and \$2,910,696 to other key employees.

- (2) Company contributions under the Employees Profit Sharing Plan and the Employee Stock Ownership Plan ("ESOP") are allocated to all employees who became members of these plans on the basis of the members' rates of pay (a member's pay in excess of \$100,000 is not considered in making allocations under ESOP). Officers participate as members of these plans on the same basis as other employees. In 1977, Company contributions totaled \$11,094,769 under these plans, of which \$91,763 was allocated to Company officers.
- (3) Remuneration for the period July 29-December 31, 1977, including a bonus relating to the entire year.

Retirement Plan

The Company has a noncontributory Retirement Plan covering substantially all employees which provides participants with retirement benefits based on a formula relating such benefits to salary and years of service. These benefits are subject to limitation under certain provisions of the Employee Retirement Income Security Act of 1974. Where that occurs, the Company has a retirement supplement designed to maintain total retirement benefits at the Retirement Plan formula level. Maximum annual benefits (including Social Security) payable at age 65 to participants in the plans, including all persons named in the foregoing remuneration table except for Mr. Harder*, are illustrated in the following table:

Annual Average Salary 3 Consecutive Highest Paid Years Out of Last 10 Years Preceding Retirement	Estimated Maximum Annual Retirement Benefits			
	Service Years			
	25	30	35	40
\$ 15,000	\$ 9,300	\$ 10,100	\$ 11,000	\$ 12,200
25,000	13,300	14,900	16,600	18,600
50,000	23,300	27,000	31,300	35,800
150,000	66,300	79,600	92,900	106,400
250,000	109,900	132,200	154,600	177,000
350,000	153,600	184,800	216,200	247,600

- * Mr. Harder is a participant in the separate retirement plan maintained by MolyCorp. Mr. Harder's estimated maximum annual retirement benefit is \$33,000 assuming that the highest average of the aggregate compensation in any three consecutive years during the last ten years of employment will constitute the basis for determining Mr. Harder's retirement benefit.

Information Concerning Options on Common Shares

Under the Stock Option Plan of 1975, any option granted under a shareholder approved stock option plan may include a stock appreciation right either at the time of grant or by amendment. Such right is exercisable only to the extent the option is exercisable and only with the consent of the Compensation Committee. Such right permits an optionee to surrender an unexercised option with respect to any number of unpurchased shares and to receive in exchange a lesser number of shares having an aggregate value equal to the difference between the option price of such unpurchased shares and the market value of such unpurchased shares on the date the option is surrendered. The Company may settle its obligation arising out of the exercise of an appreciation right in cash, shares, or in a combination of cash and shares.

Following is a tabulation of data concerning options on Common Shares and appreciation rights for certain directors and officers individually and for all present corporate officers:

	<u>Fred L. Hartley</u>	<u>Claude S. Brinegar</u>	<u>Ray A. Burke</u>	<u>T. C. Henderson</u>	<u>William S. McConnor</u>	<u>Charles F. Parker</u>	<u>All Present Corporate Officers Including Those Named</u>
Common Shares Granted since Jan. 1, 1977							
Number of shares.....	None	None	None	None	None	None	1,380
Exercised since Jan. 1, 1977							
Number of shares.....	None	None	None	None	None	1,440	2,640
Aggregate option value of shares exercised.....						\$ 45,720	\$ 82,695
Aggregate market value of shares on dates exercised...						\$ 68,940	\$130,785
Exercise of appreciation rights since Jan. 1, 1977							
Number of shares.....	None	None	None	None	None	4,410	6,610
Aggregate option value of rights exercised.....						\$135,883	\$203,672
Aggregate market value of shares on dates rights exercised.....						\$240,069	\$359,938
Number of shares issued in partial settlement of appreciation rights.....						956	1,429
Unexercised at June 30, 1978							
Number of shares.....	25,300	2,500	11,408	3,998	8,818	None	67,002
Average per share option price(1).....	\$30.97	\$35.88	\$30.81	\$31.08	\$30.98	—	\$31.63

(1) Represents market value on dates granted.

Performance Share Plan of 1975

Under the shareholder approved Performance Share Plan of 1975, officers and key employees may be awarded in the aggregate a maximum of 130,000 Performance Share Units ("Units"), each equivalent to one share of the Company's Common Stock, during the ten-year period commencing January 1, 1975.

A total of 26,020 Units have been awarded for the first four-year award period ending December 31, 1978, and 21,340 Units have been awarded for the second four-year award period ending December 31, 1980. Awards to certain present directors and officers, including those named in the table on page 40, for the first and second award periods are, respectively: 4,250 Units and 3,350 Units to Mr. Hartley, 1,600 Units and 1,120 Units to Mr. Brinegar, 1,600 Units and 1,120 Units to Mr. Burke, 670 Units and 590 Units to Mr. Henderson, 1,380 Units and 980 Units to Mr. McConnor, 1,640 Units and 0 Units to Mr. Parker. 16,840 Units and 11,110 Units were awarded during the two award periods to all present directors and officers. Mr. Harder is not a participant in this Plan.

The percentage of awards earned and payable for each award period is contingent upon the Company achieving a specified average return on shareholders' equity during the period. Such payments may not exceed by more than 200 percent the fair value of Units (\$36.53 each for the first award period and \$56.35 each for the second award period) at time of grant.

Interests in Certain Transactions

During 1977 and the first half of 1978, the Company purchased instruments and equipment in the ordinary course of business from Beckman Instruments, Inc. at competitive market prices. Such purchases amounted to \$206,000 in the aggregate and it is expected there may be similar transactions in the future.

In January, 1978, Beckman Instruments, Inc. acquired real property located in Brea, California for its fair market value of \$1,544,128 from a wholly-owned subsidiary of the Company. A contract for the sale of additional real property located in Brea was executed by Union's wholly-owned subsidiary and Beckman Instruments, Inc. in late August 1978 at a fair market value of \$2,256,202. The sales prices of said real property were based upon independent appraisals. Union believes that similar prices could have been obtained from nonaffiliates. Dr. Ballhaus, a Director of the Company, is President of Beckman Instruments, Inc.

The Company sold wax in the ordinary course of business to a subsidiary of Di Giorgio Corporation at competitive market prices. Such sales amounted to \$718,000 in the aggregate during 1977 and the first half of 1978 and it is expected there may be similar transactions in the future. The terms of the sales were similar to those that could have been obtained from a nonaffiliate. Mr. Di Giorgio, a Director of the Company, is Chairman and Chief Executive Officer of Di Giorgio Corporation.

Molycorp, Inc. and International Mining Corporation have maintained a joint minerals exploration program for two projects pursuant to an agreement entered into in July 1969. Each party was committed to make contributions based upon an annual budget and had a 50% interest in the program, which was managed by Molycorp. During 1977, Molycorp received reimbursement of \$156,000 from International Mining for its share of expenses. The joint program was terminated in April, 1978 by Molycorp's withdrawing an undivided interest in one project and by purchasing for \$200,000 all of International Mining's interest in the other project.

During 1977, Molycorp, Inc. placed most of its insurance through a wholly-owned subsidiary of Canton Company, which is a wholly-owned subsidiary of International Mining Corporation, and paid \$1,329,000 in premiums during 1977 and the first half of 1978 on which the subsidiary received commissions at regularly established rates. It is expected there will be minimal transactions in the future. Mr. Harder, a Director of the Company, is Chairman and Chief Executive Officer of International Mining Corporation and Chairman of Canton Company.

The Company engaged in transactions with the Los Angeles Dodgers, Inc., in the ordinary course of business, totaling \$1,020,000 during 1977 and the first half of 1978. Such transactions included advertising space rental, broadcast rights and ticket purchases. It is expected there may be similar transactions in the future. Mr. O'Malley, a director of the Company, is President of the Los Angeles Dodgers, Inc.

The Accounting and Auditing Committee of the Board of Directors is presently composed of three non-employee directors — Donald P. Jacobs, Peter O'Malley, and Donn B. Tatum. The firm of Coopers & Lybrand was engaged as independent certified accountants for 1978.

Beneficial Ownership of Voting Securities

Following is the name of the beneficial owner of more than five percent of Union's Common Stock, par value \$8 $\frac{1}{3}$ per share, the only class of voting securities outstanding as of June 30, 1978:

Security Pacific National Bank Trustee for Union Oil Employees Profit Sharing Plan P.O. Box 2498, Terminal Annex Los Angeles, Ca. 90051	2,308,074 Common shares	5.3% of the class outstanding
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The number of Common shares held by Directors and corporate officers as a group, as of June 30, 1978, is 249,278, which constitutes 0.6% of the class outstanding.

The Trustee for the Union Oil Employees Profit Sharing Plan may acquire additional shares of Union Common Stock with contributions made by Union and voluntary participants in the Plan pursuant to the terms thereof and to the terms of the Trust Agreement between Union and the Trustee. Officers and Directors of Union (excluding non-employee Directors) may acquire additional shares of Union Common Stock upon exercise of stock options and stock appreciation rights, as described herein under the heading "Information Concerning Options on Common Shares" and pursuant to the terms of the Performance Share Plan of 1975, as described herein under that heading.

DESCRIPTION OF COMMON SHARES OF UNION

As of the date of this Proxy Statement, Union has outstanding only Common Shares with a par value of \$8 $\frac{1}{3}$ per share.

A brief summary of the effect of the provisions contained in Union's Articles of Incorporation, as amended, that concern the rights of holders of the Common Shares and of provisions contained in agreements concerning certain of Union's long-term debt which relate to such rights follows:

Dividend Rights: Dividends may, subject to compliance with the limitations referred to below, be declared and paid on outstanding Common Shares out of any assets at the time legally available therefor.

Terms of one of Union's debt agreements place restrictions upon the payment of cash dividends or distribution of assets on any capital shares and the purchase, acquisition or redemption of outstanding capital shares. In addition, they require the maintenance of minimum levels of working capital and debt/equity ratios. The most restrictive of these relate to working capital, which is to be maintained at no less than \$40,000,000.

Voting Rights: Under California law, each holder of Common Shares has cumulative voting rights with respect to the election of directors.

Pre-emptive Rights: The holders of Common Shares have no pre-emptive rights to purchase (a) capital stock issued in exchange for or in payment for property, (b) bonds, debentures or evidences of indebtedness convertible into or having optional rights to purchase capital stock or the capital stock issuable upon exercise of such conversion or optional rights, and (c) Common Shares which may be sold to certain employees (including officers) chosen by the Board of Directors, or issued pursuant to the exercise of options granted to such employees, but not to exceed in the aggregate 1,146,899 Common Shares, such maximum amount being subject to further adjustment in the same manner as Union's outstanding Common Shares in the event of any share dividends or in the event the Common Shares of Union shall be changed into, or exchanged for, a different number or issue of shares of stock or other securities.

Liquidation Rights: Upon dissolution of Union, after it has been determined that all of the claims and obligations of the corporation have been paid or adequately provided for, the assets will be distributed to the holders of Common Stock. There are no existing preferential rights to share in such assets upon dissolution of the corporation.

Other Matters: The Common Shares are not convertible and are not subject to redemption.

All outstanding Common Shares have been issued as fully paid shares and the Articles of Incorporation do not authorize the levy of assessments upon such shares.

BUSINESS AND PROPERTIES OF SILVER BELL

In General:

Silver Bell was organized under Colorado law in 1969 for the purpose of acquiring all of the assets and liabilities of Silver Bell Mines Co., its predecessor. Silver Bell Mines Co. had been organized in 1944 and many of its records have been lost or misplaced.

Since its inception, Silver Bell has been engaged in the acquisition of interests in and to mineral properties and in exploration efforts thereon directly or through partners, lessees, purchasers, and optionees for many types of minerals.

Silver Bell does not engage in mining exploration or development activities on any of its properties at the present time. Most of its properties are either under lease, option, or joint venture with other parties engaged in various exploration efforts.

Silver Bell has four employees, its President, an office secretary, and two employees doing maintenance and assessment work on its properties. Silver Bell maintains offices at 158 Fillmore, Denver, Colorado 80206, and its telephone number is (303) 333-4211.

For the reasons set forth under THE SILVER BELL ACQUISITION — Board of Directors Recommendation, Silver Bell has agreed to sell substantially all of its assets to Minerals. Silver Bell considers Silver Bell's 35% interest in the Sweetwater Project to be its primary asset. Union and Minerals have agreed to acquire substantially all of Silver Bell's assets in order to acquire Silver Bell's 35% interest in the Sweetwater Project described below.

The Sweetwater Project:

In General:

Silver Bell owns a 35% undivided interest and Minerals owns the remaining 65% undivided interest in a joint venture formed to explore for and develop uranium deposits which may be found on unpatented lode mining claims and state leases located in Sweetwater, Fremont and Natrona Counties, Wyoming. Sufficient deposits of uranium have been discovered beneath a portion of the joint venture properties in Sweetwater County to justify opening a surface pit and constructing a mill. The project is referred to as the Sweetwater Project or Sweetwater Mine and Mill.

Mineralization occurs in a number of deposits located within an area of approximately 20,000 feet in length and 3,000 feet in width. The depth to the deposits varies, but generally increases from a few feet at the southern end of the deposits to over 400 feet at the northern end. The uranium ore minerals, principally uranite and some coffinite, occur as pore fillings and grain coating in fine-to-coarse grained sandstones of the upper portion of the Battle Springs Formation.

Minerals currently estimates that proved recoverable reserves of approximately fourteen million pounds of uranium oxide (U_3O_8), using a milling extraction efficiency factor of 91.7%, are located on the Sweetwater Project site. Silver Bell's undivided 35% interest equals approximately 5.0 million pounds. The ore is estimated to have an average grade of 0.048 percent U_3O_8 . Such estimates are based upon about 2,700 test holes that have been logged by radiometric probing, of which approximately four percent were cored and analyzed by chemical methods.

Present plans call for the ore to be recovered by sequential excavation and filling of a series of open pits. If the ore contains more than approximately 0.029 percent uranium oxide, it will be hauled for processing to the mill to be constructed east of the ore body. Material with a grade between 0.029 and 0.01 percent uranium oxide will be hauled to a pad where it will be leached with acidified mine discharge water. Material containing less than 0.01 percent uranium oxide will be deposited in a waste dump or used for back-filling mined-out areas. Based upon present plans, it is anticipated that the estimated proved reserves would be recovered over a period of 15 years.

Assessment of Economic Viability:

Numerous studies of the Sweetwater Project concerning reserve determinations and mining, milling and reclamation plans have been made by Minerals and by consulting firms. Minerals has assessed the results of these studies and based upon current uranium prices and estimated expenses, has concluded that commercial production of uranium will be economically feasible and profitable. However, such conclusion is contingent on a number of uncertainties, including the issuance of required permits in a timely manner, the future price of uranium, capital requirements and operating costs.

The current price of uranium as reported by Nuclear Exchange Corporation as of September 30, 1978 was \$43.25 per pound. If the entire estimated proved recoverable reserve of the Sweetwater Project (14,000,000 pounds) could be sold at such price, the gross value of such reserves would be \$605,500,000 and the gross value of Silver Bell's interest in such reserves would be approximately \$211,925,000. Net profits would, of course, be reduced by the costs of recovery, capital, milling and taxes. There is no assurance that the price of uranium will remain at current levels or, since no commitment has been made for the sale of Silver Bell's share of any uranium produced from the Sweetwater Project, that Silver Bell's share of any production could be sold at that price.

If the price of uranium increases substantially above the current price or if substantial additional reserves of uranium prove to be recoverable through the in situ leaching process described below, Silver Bell's interest in the Sweetwater Project would tend to increase in value. Conversely, a decline in uranium prices, material delays in the permitting process and in the production schedule or tax or cost increases would tend to decrease the value of Silver Bell's interest. For example, Minerals' assessment of the economic viability of the Sweetwater Project was made before the federal Nuclear Regulatory Commission ("NRC") required that tailing produced by mining operations be buried. While detailed plans for burial are not yet complete, such a requirement will impose substantial additional costs for tailing disposal. Recent delays in obtaining a Permit to Mine indicate that commercial production could start no earlier than early 1980. See "Environmental Matters".

Minerals has advanced all funds expended for development of the Sweetwater Project to date. If the Silver Bell Acquisition is not completed, Minerals anticipates that funds will continue to be advanced. Minerals will recover such advances, plus 10% interest on the unpaid balance of such advances, from 90% of Silver Bell's 35% share of production only if production commences. See "The Operating Agreement". Based upon current estimates made by Minerals, Minerals may not obtain full repayment of advances before late 1984, assuming that commercial production commences in 1980.

Environmental Matters:

Prior to commencement of operations at the Sweetwater Mine and Mill, Minerals must obtain a Permit to Mine from the Wyoming Department of Environmental Quality ("DEQ") to assure that mining operations conform to a state approved reclamation plan in accordance with the Wyoming Environmental Quality Act, and a Source Material License from the NRC to possess, use, transfer and deliver source material for uranium milling or other activity which will significantly affect the quality of the environment. The other major permits required for the Sweetwater Project have been issued. Regular review, monitoring and inspections will be required for operations under both the Permit to Mine and the Source Material License. The DEQ will require a reclamation performance bond of over \$10,000,000 on the Sweetwater Project for the first year of operation. On May 1, 1978, a year and a half after Minerals' initial filing of the Application for a Permit to Mine with the DEQ, the Wyoming Outdoor Council, a private group, objected to the issuance of the Permit to Mine for alleged failure to complete the Application and to comply with the Wyoming Environmental Quality Act. Wyoming law requires an evidentiary hearing before the Wyoming Environmental Quality Council ("EQC") for all contested applications. On May 10, 1978 (after the hearing process had commenced) the NRC ordered a change in the method of tailing disposal; all disposal pits were required to be below ground. On July 12, 1978 the EQC reviewed the disposal plan and ruled that the modification was a

"significant change". The EQC dismissed Minerals' Application. Minerals has submitted the tailing disposal modification to DEQ. As soon as the modification is reviewed, the entire application will be republished and reviewed in an evidentiary hearing. Minerals and Silver Bell anticipate that the hearing will be held in late October, 1978. Minerals and Silver Bell are also considering a concurrent appeal of the EQC decision to the courts. If Minerals and Silver Bell do not obtain a Permit to Mine from the DEQ, the denial will be appealed. The Sweetwater Project will be terminated if all appeals fail. Silver Bell will not be obligated to repay outstanding advances of approximately \$12,000,000 to Minerals if the Project is terminated.

Application to the NRC was made for a Source Material License in 1976 and a Draft Environmental Statement (NUREG-0403) was issued by the NRC in December 1977. On May 10, 1978, Minerals agreed to ultimately bury all tailing and heap leach residues in pits below ground level to satisfy NRC requirements for long-term stabilization of tailing. Minerals has been informed by the NRC that the NRC is satisfied with its Application for a Source Material License. The NRC has indicated that it will either issue the License subject to state issuance of the Permit to Mine or will furnish Minerals with a letter stating that the License will be issued as soon as the state issues the Permit to Mine.

Other Joint Venture Properties:

The joint venture properties in Sweetwater County have not been completely explored. Current exploration drilling indicates substantial additional mineralization exists throughout the area, but the degree to which any of these mineralized areas will contain commercially mineable deposits cannot be determined at this time.

In Situ Leaching Potential:

In the summer of 1975, Minerals and Silver Bell initiated tests of a process for leaching uranium from the joint venture properties in Sweetwater County by injecting chemical solutions into holes drilled into the formation. The injected fluids flow back from other holes and dissolved uranium is subsequently recovered in ion exchange columns. Extensive plugging of the formation, probably from products of corrosion and/or swelling of clays, terminated the initial "in situ leaching" test with recovery of less than 500 pounds of U_3O_8 in the form of a precipitated slurry. New tests were started in August 1976, injecting chemical solutions into two patterns of four holes each spaced 50 feet apart with a single producing hole in the center of each pattern. Three additional holes on 50-foot centers were completed on one pattern in June 1977. The combined production from both patterns fluctuated from five to 28 pounds per day from August 1976 through March 1978, during which time some of the injection holes were changed to production, and several combinations of oxidants and leaching fluids were tested. Cumulative production through March 1978 was less than 8,000 pounds of U_3O_8 .

On March 28, 1978, all holes were put on production in an attempt to demonstrate that all of the injected chemicals could be recovered from the formation fluids to meet regulatory agencies' requirements for restoration of the quality of the ground water. By May 1978, although the concentration of injected chemicals appeared to be substantially reduced, uranium production continued to be approximately ten pounds of U_3O_8 per day. The demonstrated ability to recover chemicals injected into the formations and to restore ground water quality is required before permits to conduct more extensive in situ leaching tests will be issued.

Minerals deems the test results to be sufficiently favorable to propose a larger test which is designed to determine if in situ uranium leaching is commercially feasible for uranium deposits that are not suitable for open-pit operations. There are numerous occurrences of such uranium deposits on the Project property that, in the opinion of Minerals and Silver Bell, may yield significant commercial values if in situ leaching proves successful. The uncertainty of technical feasibility, particularly the ability to restore ground waters and the economics of a commercial-scale plant, preclude estimates of the value of in situ leaching potential with any degree of precision.

The Operating Agreement:

Minerals and Silver Bell (as successor in interest to certain other corporations) are parties to an Operating Agreement dated May 9, 1969 (the "Operating Agreement"), relating to the exploration for, and development and production of, uranium and other ores from certain mining claims and leases located in Sweetwater, Fremont and Natrona Counties, Wyoming (the "Lands"). The Sweetwater Project is subject to the Operating Agreement. Certain provisions of the Operating Agreement are summarized below.

Pursuant to the Operating Agreement, Silver Bell's share of the costs of construction of mining and milling facilities and any burdens and taxes accruing on the ores produced from the property have been advanced by Minerals and are expected to be recouped from 90% of Silver Bell's share of production from the Lands or the proceeds therefrom in the event that the Acquisition is not completed. Interest accrues on unpaid advances at the rate of 10% per annum. The amount of such advances, plus interest, presently outstanding is approximately \$12 million. If the Silver Bell Acquisition is completed, Minerals will acquire the assets subject to the outstanding advances. Silver Bell is not obligated to repay advances if production does not commence.

As Operator under the Operating Agreement, Minerals exercises exclusive control and supervision of the real and personal property which is subject to the Operating Agreement. Silver Bell has certain approval rights relating to work programs and annual budgets proposed by Minerals.

A majority of the members of a Technical Committee comprised of three representatives of Minerals and two representatives of Silver Bell has the right to approve exploration and development plans and certain other matters relating to the joint operation of the properties.

Silver Bell has the right of access to the properties, together with the right to inspect all drilling data, samples, cores, logs and all other data pertaining to the properties obtained by Minerals while conducting the Project.

In the event that any party acquires or proposes to acquire additional lands or mineral rights located in lands located within five miles of the Lands (the "Area of Interest") for purposes related to exploration or mining activities, the non-acquiring party has the right to participate in the ownership of such properties in proportion to its interest in the Project at the time of the acquisition of said property.

Minerals recently considered the acquisition of an interest in certain unpatented uranium mining claims adjoining the Lands and within the Area of Interest. Negotiations were suspended pending reconsideration of the effect of the Wyoming DEQ's denial of Application for a Permit to Mine. See: "Environmental Matters". If Silver Bell is not acquired by Minerals and purchase negotiations are reinstated, Silver Bell will have the right to participate in the purchase price and the ownership of, and any production from, this property in accordance with the terms of the Operating Agreement and will retain its present royalty interest therein.

A party's entire undivided interest in the Lands may be assigned; provided that the other party has a right of first refusal to purchase the interest of the withdrawing party. No such preferential right to acquire additional lands or mineral rights arises in the event of disposition of a party's entire interest by merger, reorganization, consolidation or sale of all of its assets. Properties may also be withdrawn from the Project under certain conditions, subject to the rights of parties to retain their interests in the withdrawn properties. Parties may withdraw from the Operating Agreement upon termination of their interest in the Lands, including interests in the Sweetwater Project.

The term of the Operating Agreement extends during the term of any mining claim or lease which is subject to the Operating Agreement or for as long as minerals can be mined commercially from any of the claims included under the Operating Agreement, whichever is longer.

Other Properties:

Silver Bell has no knowledge of any commercially mineable deposits on any of its properties, other than the Sweetwater Project.

Following is a brief description of the mineral property interests held by Silver Bell as of June 30, 1978, divided into eleven groups in three states.

WYOMING:

1. CLAIMS IN MINERALS EXPLORATION COMPANY JOINT VENTURE (SEE "THE SWEETWATER PROJECT" ABOVE).
2. CLAIMS WHICH ARE THE SUBJECT OF TRANSACTIONS WITH JOHN S. WOLD.
3. CLAIMS SUBJECT TO A LEASE AGREEMENT WITH UNION CARBIDE CORPORATION.
4. AGREEMENT BY KERR-McGEE CORPORATION TO ACQUIRE CLAIMS.
5. OVERRIDING ROYALTY ACQUIRED FROM DEAN L. ZOBEL.

COLORADO:

1. CLAIMS SUBJECT TO A PURCHASE AND SELL AGREEMENT ASSIGNED TO PIONEER URAPAN, INC.
2. MINING DEED TO C. W. BUNKER PLACED IN ESCROW BY SILVER BELL ON CLAIMS LOCATED IN MONTROSE COUNTY, COLORADO.
3. MARSHALL PASS UNPATENTED MINING CLAIMS, SAGUACHE COUNTY, COLORADO, DEEDED TO HOMESTAKE MINING COMPANY.
4. (a) SAN MIGUEL COUNTY, COLORADO, PROPERTIES, AND (b) CLAIMS AND LEASES WHICH ARE BEING ACQUIRED FROM F. W. BAUMGARTNER.
5. THE AGREEMENT OF SILVER BELL TO ACQUIRE ALL THE ASSETS OF THE MANCOS CORPORATION IN EXCHANGE FOR STOCK OF SILVER BELL AND RECENT EVENTS CONCERNING THAT AGREEMENT.

UTAH:

1. LEASE ON FEE LAND FROM W. T. KNUCKLES ASSIGNED BY SILVER BELL TO UNION CARBIDE CORPORATION.

A description of each of the above properties in greater detail follows:

WYOMING PROPERTIES (excluding the Sweetwater Project)

CLAIMS WHICH ARE THE SUBJECT OF TRANSACTIONS WITH JOHN S. WOLD

	No. of Unpatented Mining Claims (More or Less)	Location of Claims (County and State)	Claim Group	Approximate Acreage	Interest
1.	27	Sweetwater, Wyo.	JOY	540	4½ %
	445	Sweetwater, Wyo.	KAY	8,900	yellow cake royalty
2.	613	Sweetwater and Fremont, Wyo.	M-D to Red	10,530	4½ % yellow cake royalty

	No. of Unpatented Mining Claims (More or Less)	Location of Claims (County and State)	Claim Group	Approximate Acreage	Interest
3.	169	Carbon, Wyo.	AB	3,380	3½ % yellow cake royalty
	195	Natrona, Wyo.	Pork Chop	4,340	3½ % yellow cake royalty
	86	Carbon, Wyo.	Oro to PatS	1,720	3½ % yellow cake royalty
4.	102	Sweetwater, Wyo.	SUL	2,040	4½ % yellow cake royalty
	146	Sweetwater, Wyo.	LEE	2,920	4½ % yellow cake royalty

1. On August 28, 1975, Silver Bell entered into an Agreement for Mining Deed (with Mining Deed attached and delivered therewith) with John S. Wold of Casper, Wyoming, under which it sold all of its right, title, and interest in the JOY and the KAY claims subject to the reserved yellow cake royalty. The \$30,000 consideration has been paid.
2. Again on August 28, 1975, Silver Bell entered into a second Agreement for Mining Deed (with a Mining Deed attached and delivered therewith) with John S. Wold under which it sold all of its right, title, and interest in claims described after 2-above subject to the reserved yellow cake royalty. The \$20,000 consideration has been paid.
3. On November 1, 1975, Silver Bell gave a Special Warranty Mining Deed to John S. Wold conveying to him the claims described after 3 above subject to the reserved yellow cake royalty. The annual advance royalties of \$100,000 were paid on or before November 1, 1976, and 1977, respectively. Under terms set forth in the deed, the annual advance royalty is reduced to \$75,000 in 1978 and is to remain at that figure until the grantee shall produce uranium commercially from the claims.
4. On September 1, 1977, Silver Bell gave a Mining Deed to John S. Wold, conveying to him the 248 claims described after 4 above.

CLAIMS SUBJECT TO A LEASE AGREEMENT WITH UNION CARBIDE CORPORATION

No. of Unpatented Mining Claims (More or Less)	Location of Claims (County and State)	Claim Group	Approximate Acreage	Interest
80	Sweetwater, Wyo.	Jab	1,600	} 10% or minimum annual advance royalty
4	Sweetwater, Wyo.	DW	80	
4	Sweetwater, Wyo.	EQ	80	

Union Carbide holds only the above described 88 claims under a Lease Agreement dated May 16, 1972. The lessee makes minimum annual royalty payments described in the lease. These payments are current. Royalty on crude ore is to be 10% less penalties, taxes, handling, and transportation costs. In the event the lessee produces uranium compounds for sale, the royalty is to be based on a table in the agreement.

AGREEMENT BY KERR-McGEE CORPORATION TO ACQUIRE CLAIMS

<u>No. of Unpatented Mining Claims (More or Less)</u>	<u>Location of Claims (County and State)</u>	<u>Claim Group</u>	<u>Approximate Acreage</u>	<u>Interest</u>
52 (50%)	Sweetwater, Wyo.	ROSS	1,400	8% raw ore royalty
16 (50%)	Sweetwater, Wyo.	ROX	320	4% to 5% processed ore royalty

On July 6, 1973, Kerr-McGee Corporation ("Kerr-McGee") entered into an agreement with Silver Bell and persons from whom Silver Bell was acquiring claims to purchase their 50% interest in 1,394 claims in Fremont and Sweetwater Counties, Wyoming. Part of the claims were transferred to Amax Uranium Corporation by Kerr-McGee on April 1, 1974, on which date Kerr-McGee informed Silver Bell that the only claims it would retain under the agreement were the ROSS and the ROX claims. Amax surrendered the other claims deeded to it to Silver Bell on July 18, 1974.

OVERRIDING ROYALTY ACQUIRED FROM DEAN L. ZOBEL

<u>No. of Unpatented Mining Claims (More or Less)</u>	<u>Location of Claims (County and State)</u>	<u>Claim Group</u>	<u>Approximate Acreage</u>	<u>Interest</u>
75	Sweetwater and Fremont, Wyo.	LEE	1,500	5% ORR

Silver Bell acquired the above described overriding royalty interest through an Option and Purchase Contract with Mr. and Mrs. Dean L. Zobel, dated April 26, 1972, which required Silver Bell to make an aggregate payment of \$32,500, commencing with the down payment of \$2,000 and continuing with payments of \$1,000 per month thereafter until paid. The purchase price has been paid.

At the time of the acquisition of the overriding royalty interest, the property was owned by Nuclear Exploration and Development Company. The working interest is now owned by Pacific Power and Light Company.

Colorado Properties:

CLAIMS SUBJECT TO A PURCHASE AND SELL AGREEMENT ASSIGNED TO PIONEER URAVAN, INC.

<u>No. of Unpatented Mining Claims (More or Less)</u>	<u>Location of Claims (County and State)</u>	<u>Claim Group</u>	<u>Approximate Acreage</u>	<u>Interest</u>
235	San Miguel, Colo.	Bull & Hamm Canyon Group	4,700	10% royalty until \$1 million end price is paid
42	Montrose, Colo.	Club Basin Gil Max Eagle Uravan	900	

The above claims are subject to a Purchase and Sell Agreement entered into on March 31, 1973, by Silver Bell with John I. Schumacher, dba Strategic Minerals Exploration Co. ("Strategic"). The agreement was later assigned to Pioneer Uravan, Inc. ("Pioneer"), a wholly-owned subsidiary of Pioneer

Corporation. Strategic paid \$15,000 in cash and agreed to pay \$1,000,000 from royalties of 8% of net receipts from March 31, 1973, to March 31, 1974, and thereafter 10%. The total purchase price is to be reduced by \$4,000 for each claim surrendered, or as to which title is later found to be inadequate, down to but not below \$500,000. The assignee is paying all taxes and is filing Affidavits of Labor. After March 31, 1976, it became obligated to perform 1,000 man hours of work per month during periods when ores can be marketed from the claims at a profit. The properties are being mined by Pioneer and royalties are being received by Silver Bell.

**MINING DEED TO C. W. BUNKER PLACED IN ESCROW BY SILVER BELL
ON CLAIMS LOCATED IN MONTROSE COUNTY, COLORADO**

<u>No. of Unpatented Mining Claims (More or Less)</u>	<u>Location of Claims (County and State)</u>	<u>Claim Group</u>	<u>Approximate Acreage</u>	<u>Interest</u>
37	Montrose, Colo.	Cantankerous Lion Creek to Soldier Boy	740	4½ % 7½ % until the \$235,000 end price is paid

In March, 1973, Silver Bell executed and placed in escrow a Mining Deed to C. W. Bunker ("Bunker") on the above described claims in Montrose County, Colorado.

Royalties on gross proceeds from all claims, except seven, are 7½ % and on the seven claims are 4½ % until aggregate royalty payments reach \$235,000, at which time the Escrow Agent is to deliver the Mining Deed to Bunker. Bunker pays all taxes on the property, does all required assessment work, and files necessary Affidavits of Labor thereon. Within each 90-day period, at least 60-man shifts must be worked or the cost equivalent must be spent on the property.

The accumulated total of all royalty payments to February 7, 1978, is \$34,228.29.

**MARSHALL PASS UNPATENTED MINING CLAIMS,
SAGUACHE COUNTY, COLORADO, DEEDED TO HOMESTAKE MINING COMPANY**

<u>No. of Unpatented Mining Claims (More or Less)</u>	<u>Location of Claims (County and State)</u>	<u>Claim Group</u>	<u>Approximate Acreage</u>	<u>Interest</u>
97	Saguache, Colo.	Sarge Snowshoe Maybelle Blitz F & F	1,940	9½ % or scheduled royalty

Silver Bell gave a Deed to Homestake Mining Company on October 15, 1975. Silver Bell has a 9½ % Mine Value per dry ton royalty, 7½ % of which is shifted to a Schedule in the event of processing by Homestake. Silver Bell has no interest in the property at this time other than the royalty interests described in the tabulation.

SAN MIGUEL COUNTY, PROPERTIES
(Excluding F. W. Baumgartner Properties which are separately explained later)

No. of Mining Claims (More or Less)			
	<u>Unpatented</u>	<u>Claim Group</u>	<u>Approximate Acreage</u>
1.	42	Butterfly Group	305
2.	28	Monarch Group	293
3.	11	Clagget Group	110
4.	9	Carbonero Group	80
5.	3	Tip Top 5, 6, 9	62
6.	29	Silver Bell Group	307
7.	7	Noyes Group	131
8.	29	Risser Group	*
Total	<u>158</u> Claims		<u>1,288</u> acres

* The 29 claims in the Risser Group overlie the Ruth Group of claims described below. Accordingly, no additional acreage accrues to Silver Bell as a result of owning this group of claims.

	<u>Patented</u>		
1.	3	Monarch	20.210
2.	14	Carribeau	115.657
3.	4 ¹⁵ / ₁₆	Oberto	40.779
4.	4	Silver Mountain	35.185
5.	10	Carbonero	110.795
6.	6 ¹ / ₄	Pickett	49.592
7.	1 ¹ / ₄	Davis	2.314
Total	41 full claims		
	3 partial claims		374.532 acres

The above claims are not subject to lease or purchase agreements with others.

**CLAIMS AND LEASES IN SAN MIGUEL COUNTY, COLORADO -
WHICH ARE BEING ACQUIRED FROM F. W. BAUMGARTNER**

No. of Mining Claims (More or Less)			
<u>Unpatented</u>		<u>Claim Group</u>	<u>Approximate Acreage</u>
37		Ruth	497.92
93		Ophir	960.31
8		Black Jack	103.48
5		Arrow Head	93.35
<u>Patented</u>			
1		M.S. #16,473 New Dominion	10.331
¼ (undivided)		M.S. # 16,654 Attica	2.314
1		M.S. #16,421 Marie Antoinette	10.183
1		M.S. #12,716 Star Light	10.330

The described claims and others described below were the subject of a Purchase Agreement between Silver Bell and F. W. Baumgartner dated May 30, 1970, which together with attached Mining Deeds With Special Warranty and Assignments of Mining Lease is in escrow pursuant to an Escrow Agreement which provides for delivery of the deeds and assignments to Silver Bell on completion of payments. The purchase price agreed upon was \$200,000, payable \$10,000 per year through November 30, 1975, and \$20,000 per year thereafter. Payments are current through November 30, 1977, leaving a remaining balance of \$100,000.

The Pollman and the Belisle Mining Leases are part of the above transaction. Silver Bell assumed the obligation of F. W. Baumgartner to pay Mr. Belisle \$200 per month, which has been paid through November, 1978, and to pay Mr. Pollman \$100 a month, which has been paid through November, 1978. The balance of future option payments due under these leases as of November 30, 1978, was \$75,100.

THE AGREEMENT OF SILVER BELL TO ACQUIRE ALL OF THE ASSETS OF THE MANCOS CORPORATION IN EXCHANGE FOR STOCK OF SILVER BELL AND RECENT EVENTS CONCERNING THAT AGREEMENT

Silver Bell entered into an Interim Agreement with The Mancos Corporation ("Mancos"), dated September 6, 1973, to acquire all the assets of Mancos in exchange for stock of Silver Bell. On June 19, 1978, Silver Bell and Mancos entered into a Conditional Release of their obligations to each other under the Interim Agreement, which release is conditioned on the acquisition of the assets of Mancos by Minerals in exchange for 6,905 shares of Union Common Stock under and pursuant to an agreement between them.

The property of Mancos consists of 12 patented claims, which contain approximately 240 acres, and 35 unpatented claims, which contain approximately 700 acres, and 2 unpatented mill sites, which contain approximately 6 acres, together with 4 buildings and attached and unattached mill equipment. A lease on 6 patented placer claims is also owned by Mancos. All of the property is located in Montezuma County, Colorado. There are no known commercially mineable ore bodies on any of the properties. Silver Bell has no information on the properties.

The consummation of the Union-Minerals-Silver Bell agreement is a condition precedent to the consummation of the Union-Minerals-Mancos agreement. If the other agreement cannot be consummated, the Interim Agreement with Silver Bell will be reinstated.

UTAH PROPERTIES

Lease on Fee Land from W. T. Knuckles Assigned by Silver Bell To Union Carbide Corporation.

Lease	Location (County and State)	Type of Interest	Approximate Acreage	Interest
W. T. Knuckles	San Juan, Utah	Fee	920	3%

On October 5, 1971, Silver Bell assigned, transferred, and conveyed to Union Carbide Corporation a lease which it acquired on April 7, 1966, from W. T. Knuckles. Under the lease, Union Carbide Corporation has assumed the obligation of paying the minimum royalty of \$1,000 a month to Mr. Knuckles and, in addition, paid a minimum royalty of \$500 a month to Silver Bell to December 31, 1974. As additional consideration for the assignment, Union Carbide Corporation agreed to pay to Silver Bell an overriding royalty of 3% on all minerals produced and sold from the property to December 31, 1979, at which time the royalty is to advance to 5%.

MANAGEMENT AND CONTROL OF SILVER BELL

Officers and Directors

Information concerning Silver Bell's officers and directors, their principal occupations, periods of service, and shareholdings follows:

Name and Other Positions With Silver Bell	Present Principal Occupation and Occupation During Past Five Years	Period of Service as a Director	Shares of Silver Bell Owned Beneficially on 9/30/1978*
John W. Metzger Age: 63	For more than 5 years he has been engaged in the practice of law in Denver, Colorado.	10/30/1969 to date	12,000
Eugene J. Nord Vice President Age: 76	For more than 5 years he has been engaged in the real estate and insurance business in Milwaukee, Wisconsin.	10/30/1969 to date	61,757
Eugene H. Sanders President and Treasurer Age: 71	From 1966 through October 30, 1969, he was President of Silver Bell Mines Co.; from October 30, 1969, to February 15, 1972, he was President, Treasurer, and a director; from February 15, 1972, he was Chairman of the Board, Chief Executive Officer, Treasurer, and a director; and from February 11, 1977, he has been President, Treasurer, and a director.	10/30/1969 to date	515,766
William K. Somerville Executive Vice President and Secretary Age: 60	For the past 5 years he has been employed by the State of Colorado as a Senior Electrical Engineer. For the first 3 years he was with the Department of Public Works and for the last two years he has been with the Department of Planning and Budget.	9/10/1976 to date	65,630
Leland A. Whiles Age: 65	For more than 5 years until March 1, 1975, he was employed as a real estate salesman by Anthony Sweetman, Realtor, Inc., Denver, Colorado. Since March 1, 1975, he has been employed by Dickinson Realty, Aurora, Colorado.	10/30/1969 to date	12,822

* Includes all shares owned beneficially by family corporations, wives and other relatives having the same home as directors.

No family relationship exists between directors.

None of the directors have been the subject of any securities injunctive or criminal case or of any administrative decision involving securities law violations.

Remuneration

The Board of Directors of Silver Bell took action in December of 1976 to authorize a salary of \$30,000 for Mr. Stephen L. R. McNichols (an officer and a director at that time) for the period from April 1, 1976, to March 31, 1977, and a bonus of \$150,000 to Mr. Sanders, \$75,000 of which was applied to the period from April 1 to December 31, 1976, and the remaining \$75,000 was

to be applied to the calendar year 1977, of which \$18,750 was to be apportioned to the first quarter and the balance to the remaining three quarters of the year. Under and pursuant to that action of the Board of Directors, Mr. Sanders received the balance of \$56,250 for the first three quarters of the fiscal year which commenced on April 1, 1977. On March 16, 1978, Mr. Sanders was voted a salary of \$50,000 to cover the period from January 1, 1978, to July 1, 1978. That amount has been paid. Of this amount, \$21,400 has been charged to expense in fiscal 1978 for the period January 1, 1978, to March 31, 1978, and the remainder of \$28,600 has been reported as prepaid officer's bonus on the March 31, 1978 balance sheet. Additionally, Silver Bell paid the remaining \$25,000 of the salary voted to Mr. McNichols during the last quarter of the April 1, 1977, to March 31, 1978 fiscal year. Except for directors' fees paid to four directors, totaling \$4,100, the described amounts constitute the total payments to officers and directors as a group during the fiscal year ended March 31, 1978.

Stock options were extended from a termination date of September 30, 1977, to March 15, 1978, in consideration of the receipt of \$25,000 from three persons; including Eugene H. Sanders, with the understanding that if the remaining options which were extended were not exercised by March 15, 1978, the payments made by the three persons would be retained by Silver Bell as and for consideration for the extension of the options but in the event that the remaining options were exercised in full on or before the March 15, 1978, expiration date the consideration would be recognized by Silver Bell as a portion of the consideration for the exercise of the options. All options were exercised by the expiration date. Mr. Sanders' portion of the consideration paid for extension of the options was \$5,000. On March 10, 1978, he exercised his option to acquire 19,500 shares, paying an additional \$14,500 for a total of \$1.00 per share. The stock of Silver Bell ranged from a low of \$1.38 to a high of \$2.13 bid and a low of \$1.63 to a high of \$2.38 asked in the over-the-counter market during the period from April 1, 1977, to March 31, 1978. On the date Mr. Sanders exercised his option, the stock was quoted at \$2.13 bid, \$2.38 asked.

Principal Stockholders

The only persons known to own of record and/or beneficially 5% or more of Silver Bell's outstanding common stock as of July 31, 1978, and the ownership of all officers and directors as of that date were as follows:

Name and Address	Number of Shares	Percent of Class
Consolidated Oil & Gas, Inc. Suite 1300, Lincoln Tower Building, 1860 Lincoln Street, Denver, Colorado 80295	850,342*	11.23
Eugene H. Sanders 158 Fillmore, Denver, Colorado 80206	515,766	6.8
Ralph Schauss 844 East 20th Street, Casper, Wyoming 82601	516,214	6.8
Officers and directors as a group (5 persons)	667,975	8.82

* Consolidated Oil & Gas, Inc. has 4,719,697 shares of its stock outstanding, of which an aggregate of 341,414 shares (7.2%) are owned by its officers and directors as a group. No person owns as much as 5% of the outstanding stock.

Certain Transactions

On June 30, 1976, Silver Bell sold 24.5 acres of uncultivated agricultural land in Adams County, Colorado, to Mr. Sanders for an aggregate consideration of \$196,000, of which \$100,000 was paid down and the balance was evidenced by a Promissory Note secured by a Deed of Trust. The terms of the transaction were no less favorable to Silver Bell than terms that could have been obtained from a non-affiliate. As of March 16, 1978, \$50,000 had been paid on the Promissory Note. The balance of \$46,000, plus accrued interest of \$1,261.54, was paid on August 4, 1978.

BUSINESS AND PROPERTIES OF MANCOS

In General:

Mancos was organized under Colorado law on April 22, 1970 as a result of the reorganization of U.S. No-Joint Concrete Pipe Company, First National Oil and Minerals Corporation, Red Arrow Gold Corporation, and The Mancos Corporation. After receiving stock of Mancos in exchange for their respective assets, the three selling corporations declared liquidating dividends and were dissolved. Mancos has not engaged in active business at any time from the time of its incorporation to the present time and, accordingly, has had no production from its properties, which consist of 12 patented mining claims containing approximately 240 acres, 35 unpatented mining claims containing approximately 700 acres, 2 unpatented mill sites containing approximately 4 acres, and 4 buildings and various mill equipment. The mill, which was on the property of Red Arrow Gold Corporation at the time of the corporate combination, is in considerable disrepair. There are no known commercially mineable ore bodies on any of the properties.

Mancos has no full time employees. Its offices are maintained at Rocky Ford, Colorado and its telephone number is (303) 254-7464.

Silver Bell-Mancos Transaction:

Mancos and Silver Bell entered into an Interim Agreement on September 6, 1973 pursuant to which Silver Bell agreed to acquire substantially all of Mancos' assets in exchange for 125,000 Silver Bell shares. Silver Bell, Union and Minerals subsequently agreed that Minerals would acquire substantially all of Silver Bell's assets in exchange for 425,000 shares of Union Common Stock. At Silver Bell's request, Minerals subsequently agreed to acquire Mancos' assets directly for 6,905 shares of Union Common Stock, the number of Union Common shares for which 125,000 Silver Bell shares would have been exchanged had the Silver Bell-Mancos transaction been completed. The number of shares for which Silver Bell's assets are to be exchanged was reduced to 418,095. Union and Minerals have no interest in acquiring Mancos' assets but agreed to do so in order to discharge Silver Bell's obligation under the Interim Agreement.

Silver Bell and Mancos executed a Conditional Release on June 19, 1978 pursuant to which the Interim Agreement between Silver Bell and Mancos was suspended. If the Union-Minerals-Silver Bell transaction is not completed, the Interim Agreement between Silver Bell and Mancos will be reinstated. See THE SILVER BELL ACQUISITION — The Silver Bell-Mancos Transaction and THE MANCOS ACQUISITION — Board of Directors Recommendation.

Silver Bell issued a promissory note in the aggregate principal amount of \$50,000 to Mancos on September 6, 1973, which promissory note bears interest at 7% per annum and is unsecured. The maturity date of the promissory note has been extended from May 31, 1978 to May 31, 1979. If the Union-Minerals-Silver Bell acquisition is completed, Minerals will assume this obligation. If both the Union-Minerals-Silver Bell and Union-Minerals-Mancos acquisitions are completed, the promissory note will be cancelled.

MANAGEMENT AND CONTROL OF MANCOS

Officers and Directors

Information concerning Mancos' officers and directors, their principal occupations, periods of service, and shareholdings follows:

<u>Name and Other Positions With Mancos</u>	<u>Present Principal Occupation and Occupation During Past Five Years</u>	<u>Period of Service as a Director</u>	<u>Shares of Mancos Owned Beneficially on July 31, 1978 (1)</u>
Earl J. Brubaker Age 56	President of Mancos; founder and owner of Valco., Inc., a supplier of concrete products in Pueblo, Canon City, Rocky Ford, and Lamar, Colorado.	1970 to present	510,500
Frank Jobe Age 53	Secretary of Mancos; formerly Vice President of Valco, Inc., for eleven years; presently consultant to Moreland Implement Company, Rocky Ford, Colorado.	1970 to present	10,000
Clyde B. Young Age 69	Vice President of Mancos. He has been retired for more than the past five years.	1971 to present	10,000

(1) Includes all shares owned beneficially by wives and other relatives having the same home as the directors.

No family relationship exists between directors.

Remuneration:

The officers and directors of Mancos have received no remuneration in such capacities or otherwise during the past three years.

Principal Stockholders:

The only persons known to own of record and/or beneficially 5% or more of Mancos' outstanding common stock as of July 15, 1978, and the ownership of all officers and directors as of that date were as follows:

<u>Name</u>	<u>Number of Shares</u>	<u>Percent of Class</u>
Earl J. Brubaker	510,500	28.92%
Don H. Peaker	147,564	8.36%
George W. Gilmore, Jr.	106,780	6.04%
Norma G. Donnell	102,000	5.77%
Officers and Directors as a Group	530,500	30.05%

Certain Transactions:

Earl J. Brubaker issued a promissory note in the principal amount of \$30,000 bearing interest at the rate of 7% per annum in Mancos' favor shortly after the reorganization of Mancos, U.S. No-Joint Concrete Pipe Company, First National Oil and Minerals Corporation and Red Arrow Gold Corporation in 1970. The maturity date of the promissory note has been extended to November 29, 1978 but the note will be repaid prior to maturity, if necessary, in order to provide funds for Mancos to meet its cash needs in connection with the Mancos Acquisition. The terms of the transaction were no less favorable to Mancos than terms which it could have obtained from a non-affiliate.

LEGAL OPINION

George C. Bond, Esq., Vice President and General Counsel of Union, has rendered an opinion, filed as an exhibit to the Registration Statement referred to below, with respect to the valid issuance of the Union Common Stock to be issued pursuant to the Silver Bell and Mancos Acquisitions. Mr. Bond owns beneficially 1,801 shares of Union Common Stock and directly holds options to purchase 1,612 shares of such stock.

EXPERTS

The financial statements of Union and subsidiaries as of December 31, 1977 and for the five years ended December 31, 1977 are included herein in reliance upon the report of Coopers & Lybrand, independent certified public accountants, dated February 14, 1978, and upon the authority of that firm as experts.

The financial statements of Silver Bell as of March 31, 1978 and for the three years ended March 31, 1978 are included herein in reliance upon the report of Coopers & Lybrand, independent public accountants, dated June 19, 1978, and upon the authority of that firm as experts.

Grimsley, White and Company have not expressed an opinion on the balance sheet of Mancos as of December 31, 1977, 1976 and 1975 or on the related statements of operations, accumulated deficit and changes in financial position for the years then ended.

OTHER MATTERS

Neither the management of Silver Bell nor the management of Mancos knows of matters other than those listed in the accompanying Notices of Meeting which might be brought before the respective meetings. However, if any other matters not now known come before either meeting, the persons named in the accompanying proxies of Silver Bell and Mancos will vote such proxies in accordance with their best judgment on such matters.

MISCELLANEOUS

The information in this Joint Proxy Statement with respect to Union has been furnished by Union. The information in this Joint Proxy Statement relating to Silver Bell and Mancos has been furnished by Silver Bell and Mancos with the exception of the information included under the captions **BUSINESS AND PROPERTIES OF SILVER BELL** — The Sweetwater Project, Other Joint Venture Properties, In Situ Leaching Potential and The Operating Agreement which has been furnished by Minerals.

Management of Silver Bell and Mancos may use the services of their respective Directors, officers and other employees to solicit proxies, personally or by telephone or telegraph. Arrangements will be made with brokerage houses and other custodians, nominees and fiduciaries to forward solicitation material to the beneficial owners of the shares of Common Stock held of record by such persons, and Silver Bell and Mancos will reimburse them for reasonable out-of-pocket expenses incurred by them in so doing.

REGISTRATION STATEMENT AND OTHER AVAILABLE INFORMATION

Union has filed with the Securities and Exchange Commission, Washington, D.C., a Registration Statement under the Securities Act of 1933 with respect to the Union Common Stock to be distributed to stockholders of Silver Bell and Mancos pursuant to the Silver Bell and Mancos Acquisitions. The Registration Statement consists of this Joint Proxy Statement and certain additional information specified by Rules and Regulations of the Securities and Exchange Commission. The latter information may be obtained from the Commission's office in Washington, D.C.

No person is authorized to give any information or make any representation not contained in this Joint Proxy Statement in connection with the distribution of Union Common Stock pursuant to the Silver Bell and Mancos Acquisition and, if given or made, such information or representation must not be relied upon as having been authorized by Union, Minerals, Silver Bell, or Mancos. The delivery of this Joint Proxy Statement at any time does not imply that the information herein is correct as of any time subsequent to the date hereof. This Joint Proxy Statement does not constitute an offer of securities within any jurisdiction to any person to whom such offer would be unlawful.

Union and Silver Bell are subject to the information requirements of the Securities Exchange Act of 1934 and in accordance therewith file reports and other information with the Securities and Exchange Commission. Information as of particular dates concerning Union's and Silver Bell's directors and officers, their remuneration, options granted to them, the principal holders of securities and any material interest of such persons in certain transactions is disclosed in proxy statements distributed to stockholders and filed with the Commission. Such reports, proxy statements and other information filed with the Commission can be inspected and copied at the public reference facilities maintained by the Commission at Room 6101, 1100 "L" Street, N.W., Washington, D.C. Copies of such material can be obtained from the Public Reference Section of the Commission at Washington, D.C. 20549 at prescribed rates.

Reports, proxy statements and other information concerning Union can also be inspected at the offices of the New York Stock Exchange, 11 Wall Street, New York, New York 10005.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of
Union Oil Company of California

We have examined the consolidated balance sheets of Union Oil Company of California and its consolidated subsidiaries as of December 31, 1977 and the related statements of consolidated earnings, consolidated surplus and changes in consolidated financial position for the five years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Union Oil Company of California and its consolidated subsidiaries as of December 31, 1977, and the results of their consolidated operations and changes in financial position for the five years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

COOPERS & LYBRAND

Los Angeles, California
February 14, 1978

UNION OIL COMPANY OF CALIFORNIA AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

Thousands of Dollars

A S S E T S

	<u>December 31, 1977</u>	<u>June 30, 1978 (Unaudited)</u>
Current Assets		
Cash.....	\$ 15,865	\$ 1,535
Marketable securities (Note 9).....	51,643	166,876
Accounts and notes receivable, less allowance for doubtful receivables of \$14,057 in 1977 and \$13,319 in 1978.....	868,462	856,392
Inventories (Note 7)		
Crude oil.....	165,005	189,031
Refined products.....	184,876	156,127
Chemicals.....	36,786	29,583
Minerals.....	17,463	20,535
Supplies, merchandise, etc.....	32,832	27,252
Prepaid expenses.....	23,433	29,050
Total current assets.....	<u>1,396,365</u>	<u>1,476,381</u>
Investments and Long-Term Receivables		
Investment in affiliated companies.....	106,750	81,161
Investment in nonconsolidated subsidiary.....	26,188	26,885
Investment in securities (Note 9).....	31,594	51,671
Long-term receivables from affiliates and nonconsolidated subsidiary.....	48,956	43,510
Other long-term receivables.....	118,417	95,847
	<u>331,905</u>	<u>299,074</u>
Less: Allowance for losses.....	7,230	7,317
Total investments and long-term receivables.....	<u>324,675</u>	<u>291,757</u>
Properties (Note 8)		
Property, plant and equipment.....	6,209,795	6,409,985
Less: Accumulated depletion, depreciation and other allowances.....	3,242,497	3,364,343
Net properties.....	2,967,298	3,045,642
Deferred Charges	36,178	50,625
Total assets (Notes 3 and 4).....	<u><u>\$4,724,516</u></u>	<u><u>\$4,864,405</u></u>

See Notes to Consolidated Financial Statements.

UNION OIL COMPANY OF CALIFORNIA AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

Thousands of Dollars

LIABILITIES

	December 31, 1977	June 30, 1978 (Unaudited)
Current Liabilities		
Accounts payable.....	\$ 606,578	\$ 617,006
Short-term notes payable (Note 10).....	41,917	16,630
Cash dividends payable.....	24,652	26,363
Accrued payrolls.....	14,886	16,511
Accrued interest on long-term debt.....	15,636	13,435
Gasoline and other excise and sales taxes.....	24,134	31,592
Property, production, social security and sundry taxes.....	53,479	40,059
Federal and other taxes on income.....	38,697	68,052
Current portion of long-term debt.....	14,921	35,251
Total current liabilities.....	834,900	864,899
Long-Term Debt (Note 11).....	1,024,513	1,034,149
Advances, etc. Related to Future Production.....	24,377	19,781
Other Deferred Credits.....	49,129	54,690
Deferred Income Taxes.....	337,318	384,417
Minority Interests.....	16,826	16,569
Total liabilities.....	<u>2,287,063</u>	<u>2,374,505</u>

SHAREOWNERS' EQUITY

Preferred Shares, \$2.50 cumulative convertible without par value, shares outstanding — 2,219,644 shares in 1977, none in 1978 (Note 16).....	24,046	—
Common Shares, par value \$8½ per share, authorized — 65,000,000 shares, outstanding — 42,298,889 shares in 1977, 43,940,066 shares in 1978 (Notes 17 and 18).....	352,503	366,150
Surplus (see statement of consolidated surplus)		
Capital in excess of par or stated value of shares issued.....	193,940	189,575
Retained earnings.....	1,866,964	1,934,175
Total shareowners' equity.....	<u>2,437,453</u>	<u>2,489,900</u>
Total liabilities and shareowners' equity.....	<u>\$4,724,516</u>	<u>\$4,864,405</u>

See Notes to Consolidated Financial Statements.

UNION OIL COMPANY OF CALIFORNIA AND CONSOLIDATED SUBSIDIARIES

STATEMENT OF CONSOLIDATED SURPLUS

Thousands of Dollars

	Year Ended December 31,					Six Months Ended June 30, (Unaudited)	
	1973 Restated	1974 Restated	1975 Restated	1976 Restated	1977	1977 Restated	1978
Capital in Excess of Par or Stated Value of Shares Issued							
Balance at beginning of period.....	\$ 175,920	\$ 176,185	\$ 175,870	\$ 176,808	\$ 182,658	\$ 182,658	\$ 193,940
Redemption of preferred shares.....							(4,477)
Treasury shares acquired.....		(563)					
Excess from shares sold under warrants, stock appreciation rights and options; conversion of debt securities.....	265	248	938	5,850	11,282	7,211	112
Balance at end of period.....	<u>\$ 176,185</u>	<u>\$ 175,870</u>	<u>\$ 176,808</u>	<u>\$ 182,658</u>	<u>\$ 193,940</u>	<u>\$ 189,869</u>	<u>\$ 189,575</u>
Retained Earnings							
Balance at beginning of period.....	\$ 954,369	\$1,064,571	\$1,278,358	\$1,433,127	\$1,630,186	\$1,630,186	\$1,866,964
Net earnings.....	182,081	295,429	237,271	285,784	334,239	157,646	165,940
Total.....	<u>1,136,450</u>	<u>1,360,000</u>	<u>1,515,629</u>	<u>1,718,911</u>	<u>1,964,425</u>	<u>1,787,832</u>	<u>2,032,904</u>
Less:							
Cash dividends declared							
Preferred Shares.....	24,909	20,616	17,962	10,482	6,026	3,249	
Common Shares.....	46,970	61,026	64,540	78,243	91,435	44,928	50,523
Total.....	<u>71,879</u>	<u>81,642</u>	<u>82,502</u>	<u>88,725</u>	<u>97,461</u>	<u>48,177</u>	<u>50,523</u>
Premium on redemption of preferred shares.....							48,206
Balance at end of period.....	<u>\$1,064,571</u>	<u>\$1,278,358</u>	<u>\$1,433,127</u>	<u>\$1,630,186</u>	<u>\$1,866,964</u>	<u>\$1,739,655</u>	<u>\$1,934,175</u>

See Notes to Consolidated Financial Statements.

UNION OIL COMPANY OF CALIFORNIA AND CONSOLIDATED SUBSIDIARIES

STATEMENT OF CHANGES IN CONSOLIDATED FINANCIAL POSITION

Thousands of Dollars

	Year Ended December 31,					Six Months Ended June 30, (Unaudited)	
	1973 Restated	1974 Restated	1975 Restated	1976 Restated	1977	1977 Restated	1978
Source of funds							
Net earnings.....	\$182,081	\$295,429	\$237,271	\$ 285,784	\$ 334,239	\$157,646	\$165,940
Add charges not requiring outlay of working capital in the current period:							
Depletion and depreciation.....	175,957	215,267	234,779	279,238	308,155	147,633	125,121
Amortization of non- productive acreage costs.....	54,100	149,100	108,600	100,300	51,100	37,000	24,600
Provision for dry hole losses..	53,000	89,700	78,100	104,700	96,600	55,700	51,500
Deferred taxes.....	18,867	(41,920)	18,065	15,947	89,600	43,335	52,100
Other.....	9,483	36,682	(3,282)	(3,082)	10,989	(1,842)	5,235
Funds provided from operations.....	493,488	744,258	673,533	782,887	890,683	439,472	424,496
Increases in long-term debt.....	28,186	183,574	212,941	283,971	114,633	1,537	61,796
Book value of assets sold.....	31,380	15,620	20,656	47,739	38,961	12,879	72,334
Total.....	\$553,054	\$943,452	\$907,130	\$1,114,597	\$1,044,277	\$453,888	\$558,626
Use of funds							
Capital expenditures.....	\$398,249	\$700,788	\$700,976	\$ 817,780	\$ 812,877	\$404,166	\$327,325
Decreases in long-term debt.....	50,600	121,401	133,900	96,968	33,648	10,323	53,320
Cash dividends declared.....	71,879	81,642	82,502	88,725	97,461	48,177	50,523
Investments and long-term receivables.....	10,440	12,655	38,558	37,394	21,218	(4,848)	(6,362)
Redemption of preferred shares.....							63,184
Other.....	2,426	(12,794)	(32,535)	(17,297)	6,941	2,041	20,619
Increase (decrease) in working capital.....	19,460	39,760	(16,271)	91,027	72,132	(5,971)	50,017
Total.....	\$553,054	\$943,452	\$907,130	\$1,114,597	\$1,044,277	\$453,888	\$558,626
Increase (decrease) in working capital							
Increase (decrease) in current assets							
Cash and marketable securities.....	\$(34,226)	\$ 52,958	\$(40,907)	\$ 89,990	\$ (143,983)	\$(30,550)	\$100,903
Accounts and notes receivable.....	145,953	141,899	36,197	44,815	80,284	23,191	(12,070)
Inventories.....	(665)	125,724	28,274	23,684	93,180	90,700	(14,434)
Prepaid expenses.....	(912)	5,345	(229)	501	2,490	(1,169)	5,617
Total.....	110,150	325,926	23,335	158,990	31,971	82,172	80,016
Increase (decrease) in current liabilities.....							
Accounts payable and accrued liabilities.....	52,812	173,125	68,459	(36,168)	122,487	129,599	11,563
Short-term notes payable.....	—	—	58,133	55,751	(71,967)	10,882	(25,287)
Current portion of long-term debt.....	10,605	8,818	(42,261)	(4,640)	5,012	(4,154)	20,330
Taxes payable.....	27,273	104,223	(44,725)	53,020	(95,693)	(48,184)	23,393
Total.....	90,690	286,166	39,606	67,963	(40,161)	88,143	29,999
Net increase (decrease) in working capital.....	\$ 19,460	\$ 39,760	\$(16,271)	\$ 91,027	\$ 72,132	\$ (5,971)	\$ 50,017

See Notes to Consolidated Financial Statements.

UNION OIL COMPANY OF CALIFORNIA AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All data with respect to the six months ended June 30, 1977 and 1978 are unaudited)

Note 1 — Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of all subsidiary companies except Union Oil Credit Corporation, a wholly-owned subsidiary engaged in financing certain accounts receivable, which is accounted for on the equity basis.

Investment in affiliates owned 50% or less, other than a foreign petroleum company, are accounted for by the equity method. Investments in such companies are stated at cost plus the Company's equity in undistributed earnings after acquisition. Income taxes estimated to be payable when undistributed earnings are distributed are included in deferred taxes.

Inventories

Inventories of crude oil and refined products are valued at cost under the last-in, first-out (LIFO) method. Other inventories are valued at cost using various methods.

Amortization of Nonproductive Acreage Costs

Acquisition costs of exploratory acreage are capitalized. Full amortization of the nonproductive portion of such costs is provided over the shorter of the exploratory period or the lease holding period. Costs of successful leases are transferred to productive properties and depleted. Geophysical costs are capitalized and the portion applicable to acreage acquired is amortized in the same manner as the acquisition cost. The portion not related to acreage acquired is fully amortized currently. Leasehold rentals are charged to income as incurred.

Provision for Dry Hole Losses

The costs of drilling and equipping exploratory and development wells are capitalized. Dry holes are fully provided for currently.

Depletion and Depreciation

Depletion and depreciation related to proved oil and gas properties are calculated at unit of production rates based upon estimated recoverable reserves.

Mineral development costs are capitalized and amortized on a unit of production basis.

Depreciation of other properties is generally on a straight-line basis using various rates based on useful lives.

Maintenance and Repairs

Expenditures for maintenance and repairs are charged currently to earnings. In general, replacements and betterments are charged to the respective property accounts and such accounts are relieved of the cost of any property replaced.

Retirements and Disposals of Properties

Losses on retirement of facilities for which individual allowances are accumulated are charged to current depreciation expense and on retirements of other properties to accumulated allowances. Losses or gains on sales of properties are included in current earnings.

Investment Tax Credit

The allowable investment tax credit is applied as a current reduction of income tax expense.

UNION OIL COMPANY OF CALIFORNIA AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All data with respect to the six months ended June 30, 1977 and 1978 are unaudited)

Note 2 — Merger with Molycorp, Inc.

On July 29, 1977, the Company exchanged 4,193,885 shares of its Common Stock for all of the outstanding common stock of Molycorp, Inc., a company engaged primarily in mining, processing and marketing of molybdenum and rare earths.

The merger was accounted for as a "pooling of interests" whereby all financial data for periods prior to the merger have been restated to combine the operations of Union and Molycorp and to conform to the accounting policies of Union. Such conforming adjustments were not material to the accounts of the combined enterprise.

Note 3 — Business Segments

The Company is engaged principally in petroleum, chemical, and mineral operations. Petroleum operations involve the exploration, production, transportation and sale of crude oil, natural gas and geothermal resources; and the manufacture, transportation and marketing of petroleum products. Chemical operations involve the manufacture, purchase and marketing of chemicals for industrial and agricultural uses. Mineral operations primarily involve the exploration, development, mining, processing and marketing of molybdenum, columbium, rare earths and uranium. Other operations include construction, paving and rock plant operations (sold as of May 31, 1978); and real estate development and sales. Financial data, by segment, are set forth below.

	Revenues			Earnings Before Income Taxes			Assets December 31, 1977
	1975	1976	1977	1975	1976	1977	
	Millions of Dollars						
Petroleum operations.....	\$4,970.1	\$5,258.5	\$5,445.5	\$441.1	\$575.2	\$650.3	\$3,760.0
Chemical operations.....	515.0	531.2	568.9	116.5	82.4	61.0	545.6
Mineral operations.....	64.1	92.1	117.4	4.5	19.9	18.2	172.3
Other operations.....	106.9	110.6	142.9	7.7	(2.9)	6.3	96.0
Research, Administrative, Interest, and Other Unallocated.....	12.1	9.5	4.7	(91.7)	(106.8)	(129.9)	150.6
Intersegment Eliminations.....	(105.0)	(130.1)	(180.2)				
Total.....	<u>\$5,563.2</u>	<u>\$5,871.8</u>	<u>\$6,099.2</u>	<u>\$478.1</u>	<u>\$567.8</u>	<u>\$605.9</u>	<u>\$4,724.5</u>

	Capital Expenditures			Depreciation, Depletion and Amortization		
	1975	1976	1977	1975	1976	1977
	Millions of Dollars					
Petroleum operations.....	\$599.4	\$608.7	\$615.7	\$397.2	\$458.7	\$429.8
Chemical operations.....	77.0	173.9	140.1	6.6	7.7	7.7
Mineral operations.....	16.7	8.6	32.6	13.3	13.5	12.4
Other and Unallocated.....	7.9	26.6	24.5	4.4	4.3	6.0
Total.....	<u>\$701.0</u>	<u>\$817.8</u>	<u>\$812.9</u>	<u>\$421.5</u>	<u>\$484.2</u>	<u>\$455.9</u>

UNION OIL COMPANY OF CALIFORNIA AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All data with respect to the six months ended June 30, 1977 and 1978 are unaudited)

Note 3 — Business Segments (Continued)

Intersegment revenue eliminations are mainly transfers from petroleum operations to chemical operations at prices which approximate market.

Mineral operations include the Company's equity in earnings and investment in affiliates of \$4.3 million and \$35.6 million in 1975, \$10.5 million and \$64.2 million in 1976 and \$10.0 million and \$69.4 million in 1977. Such amounts for affiliates included in other segments are not material.

Note 4 — Geographic Areas of Operations

	Revenues			Earnings Before Income Taxes			Assets December 31, 1977
	1975	1976	1977	1975	1976	1977	
	Millions of Dollars						
United States.....	\$4,506.5	\$4,758.7	\$4,998.2	\$434.9	\$514.5	\$537.0	\$3,789.4
— Canada.....	129.2	151.8	89.2	32.6	43.2	35.8	137.8
Other foreign.....	1,417.2	1,758.0	1,998.7	102.3	116.9	163.0	646.7
Administrative, Unallocated, etc.....	12.1	9.5	4.7	(91.7)	(106.8)	(129.9)	150.6
Intersegment Eliminations.....	(501.8)	(806.2)	(991.6)				
Total.....	<u>\$5,563.2</u>	<u>\$5,871.8</u>	<u>\$6,099.2</u>	<u>\$478.1</u>	<u>\$567.8</u>	<u>\$605.9</u>	<u>\$4,724.5</u>

Intersegment revenue eliminations represent transfers (at prices which approximate market) from geographic areas for 1975, 1976 and 1977 in millions of dollars as follows: United States \$.2, \$.2 and \$1.8; Canada \$27.9, \$16.7 and \$6.2 and other foreign \$473.7, \$789.3 and \$983.6.

Revenues derived from foreign operations, net of intersegment eliminations, for the years 1973, 1974, 1975, 1976 and 1977 in millions of dollars were as follows: \$346.8, 931.4, \$1,044.8, \$1,103.8 and \$1,098.1.

Realized and unrealized gains/losses on foreign exchange, which are included in miscellaneous income, are not significant in any of the periods reported with the exception of 1974 in which a \$24.5 million loss was incurred.

UNION OIL COMPANY OF CALIFORNIA AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All data with respect to the six months ended June 30, 1977 and 1978 are unaudited)

Note 5 — Federal and Other Taxes on Income

The composition of Federal and other taxes on income is as follows:

	Year Ended December 31,					Six Months Ended June 30,	
	1973	1974	1975	1976	1977	1977	1978
	Millions of Dollars						
Federal							
Current.....	\$32.3	\$104.6	\$ 91.2	\$160.6	\$ 93.3	\$ 56.6	\$ 67.1
Investment tax credit.....	(12.4)	(24.5)	(21.2)	(32.4)	(48.8)	(28.2)	(20.5)
Deferred.....	16.5	(39.4)	17.7	14.1	74.0	37.1	43.3
Total.....	36.4	40.7	87.7	142.3	118.5	65.5	89.9
State							
Current.....	8.5	23.8	19.0	25.2	20.5	8.7	9.8
Deferred.....	1.4	(6.3)	2.3	1.9	11.2	5.3	6.4
Total.....	9.9	17.5	21.3	27.1	31.7	14.0	16.2
Foreign							
Current.....	35.9	136.9	133.2	114.8	118.2	60.7	58.7
Deferred.....	.8	6.7	(1.4)	(2.2)	3.3	1.0	2.4
Total.....	36.7	143.6	131.8	112.6	121.5	61.7	61.1
Total taxes on income.....	<u>\$83.0</u>	<u>\$201.8</u>	<u>\$240.8</u>	<u>\$282.0</u>	<u>\$271.7</u>	<u>\$141.2</u>	<u>\$167.2</u>

Deferred taxes on income resulted from the following timing differences between financial and taxable income:

Accelerated depreciation for tax in excess of book provision.....	\$20.3	\$ 14.5	\$20.5	\$20.9	\$33.4	\$20.2	\$24.1
Deductions for tax in excess of (less than) book provisions related to exploration and development costs....	(.2)	(39.6)	(17.0)	(16.4)	51.6	16.6	26.3
Other items.....	(1.4)	(15.9)	14.8	11.5	4.6	7.1	1.7
Total deferred taxes on income....	<u>\$18.7</u>	<u>\$(41.0)</u>	<u>\$18.3</u>	<u>\$16.0</u>	<u>\$89.6</u>	<u>\$43.9</u>	<u>\$52.1</u>

Reconciliation of the total provision for taxes on income to the current federal statutory rate is as follows:

Taxes on book earnings computed at 48%.....	\$127.2	\$238.7	\$229.5	\$272.5	\$290.9	\$143.4	\$159.9
Foreign taxes in excess of 48%.....	—	48.2	39.7	43.1	28.6	23.5	21.3
State taxes, net of U.S. tax effect.....	5.1	9.1	11.1	14.1	16.5	7.3	8.4
U.S. tax reduction for domestic depletion.....	(32.7)	(56.8)	(18.6)	(14.2)	(10.4)	(5.2)	(4.8)
U.S. investment tax credit.....	(12.4)	(24.5)	(21.2)	(32.4)	(48.8)	(28.2)	(20.5)
All other items.....	(4.2)	(12.9)	.3	(1.1)	(5.1)	.4	2.9
Total taxes on income.....	<u>\$ 83.0</u>	<u>\$201.8</u>	<u>\$240.8</u>	<u>\$282.0</u>	<u>\$271.7</u>	<u>\$141.2</u>	<u>\$167.2</u>

UNION OIL COMPANY OF CALIFORNIA AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All data with respect to the six months ended June 30, 1977 and 1978 are unaudited)

Note 5 — Federal and Other Taxes on Income (Continued)

No provision for U.S. taxes has been made related to the Company's share of the undistributed earnings of foreign subsidiaries and affiliates which have been retained for reinvestment or which, if distributed, are not expected to result in additional U.S. tax. Such undistributed earnings amounted to \$156.1 million as of December 31, 1977 and \$166.5 million as of June 30, 1978.

At December 31, 1977, the Company had no unused investment tax credit.

Note 6 — Earnings Per Share

Earnings per Common Share assuming no dilution are based on weighted average Common Shares outstanding during each period and earnings after deducting preferred dividend requirements. Earnings per Common Share assuming full dilution assumes the weighted average outstanding preferred shares, convertible debentures and stock options were converted into Common Shares.

Note 7 — Inventories

Inventories of crude oil, refined products, chemicals, minerals and merchandise used in the computation of cost of products sold and operating expenses, in millions of dollars, were:

December 31,						June 30,	
1972	1973	1974	1975	1976	1977	1977	1978
\$153.5	\$153.1	\$272.7	\$299.6	\$322.1	\$408.5	\$409.2	\$399.6

Current cost of inventories exceeded the LIFO inventory value included above by \$286.5 million at December 31, 1977 and \$272.5 million at June 30, 1978.

Note 8 — Properties

Investment in properties, stated at cost, was as follows:

	December 31, 1977		June 30, 1978	
	Gross	Net	Gross	Net
	Millions of Dollars			
Petroleum operations:				
Exploration.....	\$ 689.2	\$ 260.9	\$ 756.0	\$ 291.0
Production.....	3,021.7	1,140.7	3,164.9	1,215.4
Refining, marketing and transportation.....	1,687.2	993.1	1,698.1	982.2
Total.....	5,398.1	2,394.7	5,619.0	2,488.6
Chemical operations.....	489.9	427.4	505.8	432.1
Mineral operations.....	194.9	66.1	204.4	69.7
Other.....	126.9	79.1	80.8	55.2
Total.....	\$6,209.8	\$2,967.3	\$6,410.0	\$3,045.6

Accumulated depletion, depreciation and other allowances totaled \$3,242.5 million and \$3,364.4 million at December 31, 1977 and June 30, 1978, respectively.

Note 9 — Marketable Securities

Marketable securities are carried at cost. At December 31, 1977 and June 30, 1978, unrealized gains and losses were not material.

UNION OIL COMPANY OF CALIFORNIA AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All data with respect to the six months ended June 30, 1977 and 1978 are unaudited)

Note 10 — Short-Term Notes Payable

The maximum amount of the Company's short-term notes outstanding at any month-end was \$124.3 million during 1977 and \$40.4 million during the six months ended June 30, 1978. The daily average amount outstanding was approximately \$68.0 million during 1977 and \$33.7 million during the six months ended June 30, 1978.

The average interest rate on the amount outstanding at December 31, 1977 and June 30, 1978 was 6.7% and 7.6% and the weighted average interest rate on amounts outstanding was 5.3% during 1977 and 6.65% during the six months ended June 30, 1978. The weighted average interest rate is determined by weighting actual amounts of short-term notes outstanding with actual interest rates and number of days outstanding for each issue. Daily average amounts outstanding are determined by dividing weighted average interest rates into actual interest accrued during the year.

Terms of the Company's short-term notes are for repayment at maturity. Short-term notes with a maturity period of 30 days or longer may be extended, at the option of the noteholder, up to a maximum of 7 additional days.

Note 11 — Long-Term Debt and Credit Agreements

Long-term debt, excluding amounts due within one year shown under current liabilities, consisted of the following:

	December 31, 1977	June 30, 1978
	Millions of Dollars	
Bond and debentures		
8½% Debentures due 1987 to 2006.....	\$ 200.0	\$ 200.0
8¾% Debentures due 1982.....	150.0	150.0
8¾% Debentures due 1985.....	150.0	150.0
6½% Debentures due 1979 to 1998.....	141.0	118.7
4½% Debentures due 1979 to 1986.....	42.8	39.6
7½% Debentures due 1979 to 1987 (Eurodollars).....	26.0	24.3
7¾% Bonds due 1980 to 1989 (payable in Swiss francs).....	30.2	32.3
6½% to 7½% Pollution Control Revenue Bonds due 1991 to 2001.....	51.1	50.7
6.2% Marine Terminal Revenue Bonds due 2008.....	—	22.5
Notes		
8.3% Notes due 1981 to 1997.....	83.1	83.1
3¾% Notes due 1981 to 1990.....	50.0	50.0
Note due 1979 to 1982, with variable interest rates established weekly based on short-term money market rates.....	24.0	30.5
4% to 7½% Notes due 1979 to 1994.....	22.7	23.0
7% Notes due 1979 (Eurodollars).....	20.0	—
8½% Notes due 1986.....	—	30.0
Other miscellaneous debt.....	33.6	29.4
Total.....	<u>\$1,024.5</u>	<u>\$1,034.1</u>

UNION OIL COMPANY OF CALIFORNIA AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All data with respect to the six months ended June 30, 1977 and 1978 are unaudited)

Note 11 — Long-Term Debt and Credit Agreements (Continued)

Maturities of long-term debt for the remaining six months of 1978 and the following four years are set forth below:

	Millions of Dollars
1978.....	\$ 10.6
1979.....	36.5*
1980.....	20.4*
1981.....	35.6*
1982.....	185.6*

* At June 30, 1978, the Company had acquired and irrevocably deposited with the trustee for retirement: (a) 4¾% Debentures amounting to \$4.3 million excluded herein, which meets the sinking fund requirements on such debentures for 1979, 1980 and a portion of 1981; (b) 6½% Debentures amounting to \$25.3 million excluded herein, which meets the sinking fund requirements on such debentures for 1979 through 1982 and a portion of 1983; (c) 7½% Debentures amounting to \$2.7 million excluded herein, which meets the sinking fund requirements on such debentures for 1979 and a portion of 1980.

With the exception of the \$.4 million of the 4¼% Convertible Subordinated Debentures due 1991 that were outstanding at June 30, 1978 and the aforementioned securities, the Company has no other long-term debt outstanding in amounts different than those authorized by Indenture.

Arrangements with various banks make available to the Company and its subsidiaries lines of credit for a one year period with no commitment fees. The amount available under such arrangements at December 31, 1977 and June 30, 1978 was \$235.0 million and \$225.0 million, respectively.

Terms of certain debt agreements contain restrictive provisions relating to working capital and payment of dividends (other than share dividends), etc. The most restrictive provision relating to these matters at June 30, 1978 requires maintenance of \$40 million working capital.

Substantially all of the debt of subsidiaries has been guaranteed by Union Oil Company of California.

Debt discount and issuance expense, which is not material, is amortized on the straight-line basis over the life of the debt.

Note 12 — Commitments; Leases and Charter Hires

Firm commitments for the acquisition of permanent investments and fixed assets and for the purchase, repurchase and construction of assets are not considered material or unusual in relation to the kind of business in which the Company is engaged.

The Company has noncancellable long-term leases, other than those included as long-term debt, relating to marketing, refining, chemical and pipeline facilities, office buildings, and long-term tankship charter agreements for varying periods extending to the year 2053. The Company has land rights,

UNION OIL COMPANY OF CALIFORNIA AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All data with respect to the six months ended June 30, 1977 and 1978 are unaudited)

Note 12 — Commitments; Leases and Charter Hires (Continued)

purchase options, or favorable renewal options for a substantial portion of the leased properties. Total rental expense included in current earnings is as follows:

	1976	1977	Six Months Ended June 30,	
			1977	1978
	Millions of Dollars			
Fixed amount rentals				
Financing type leases.....	\$ 37.4	\$ 35.5	\$17.0	\$16.7
Operating leases.....	67.0	71.5	33.1	26.2
Contingent rentals (based on sales, usage, etc.)				
Financing type leases.....	.2	.2	.1	.1
Operating leases.....	8.3	8.9	3.5	3.5
Total rental expense.....	112.9	116.1	53.7	46.5
Sublease rental income.....	17.6	16.8	8.6	8.7
Net rental expense.....	<u>\$ 95.3</u>	<u>\$ 99.3</u>	<u>\$45.1</u>	<u>\$37.8</u>

Total rental expense and sublease rental income for the years 1973, 1974, and 1975 in millions of dollars are as follows: \$80.9 and \$17.9; \$94.8 and \$18.9; \$103.3 and \$18.6.

At December 31, 1977, minimum payments required by these leases for future periods are as follows:

	Financing Type Leases	Operating Leases	Total
	Millions of Dollars		
1978.....	\$ 34.5	\$ 42.2	\$ 76.7
1979.....	34.0	32.4	66.4
1980.....	33.8	20.0	53.8
1981.....	33.9	13.5	47.4
1982.....	32.7	11.3	44.0
Balance.....	261.0	38.5	299.5
Total rental obligations.....	<u>\$429.9</u>	<u>\$157.9</u>	<u>\$587.8</u>

UNION OIL COMPANY OF CALIFORNIA AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All data with respect to the six months ended June 30, 1977 and 1978 are unaudited)

Note 12 — Commitment; Leases and Charter Hires (Continued)

The present value of rental obligations for financing type leases at December 31, 1977 and June 30, 1978, computed by discounting future minimum payments at interest rates indicative of borrowing costs, are as follows:

	December 31, 1977	June 30, 1978
	Millions of Dollars	
Retail service stations.....	\$101.9	\$ 99.2
Refining and chemical plants.....	107.8	104.3
Pipelines, tankcars and tankships.....	50.4	48.7
Office buildings, etc.....	14.0	13.3
Total.....	<u>\$274.1</u>	<u>\$265.5</u>
Weighted average interest rate.....	<u>6.1%</u>	<u>6.3%</u>

The Company does not have noncancellable subleases in any material amount related to leased properties.

There would have been no material effect on net income had financing type leases been recorded as debt and capital investment for the five years ended December 31, 1977 and the period ended June 30, 1978.

Note 13 — Guarantees and Contingent Liabilities

The Company has guaranteed approximately \$38.0 million of the debt obligations of others, primarily companies in which a substantial stock interest is held. In addition, the Company has agreed to provide specified revenues by the shipment of products or crude oil through pipelines of companies in which stock interests are held. If such companies are unable to meet their debt obligations, Union may be required to advance funds against future transportation charges. No loss is anticipated as a result of these agreements.

Seven civil antitrust actions are pending against the Company and other major oil companies seeking treble damages, injunctive relief and divestiture of the exploration and production segments of the defendants' businesses. The Company has denied the allegations of unlawful practices in these actions and believes the actions can be successfully defended. In view of the broad and largely undefined relief sought, however, an adverse decision could have a significant effect upon the scope and nature of the Company's operations.

The Company has certain other contingent liabilities with respect to litigation, claims and contractual agreements arising in the ordinary course of business. In the opinion of management, such contingent liabilities will not result in any loss which would materially affect the Company's financial position.

Note 14 — Retirement Plans

The Company has several noncontributory retirement plans covering substantially all employees which are funded with insurance companies and a corporate trustee. At December 31, 1977 the assets exceeded the actuarially computed values of vested benefits except for one plan of a subsidiary where the unfunded amount was not material. Total costs of the plans were: \$11.1 million in 1973, \$14.9 million in 1974, \$23.3 million in 1975, \$25.8 million in 1976, \$29.2 million in 1977, \$14.6 million in the six months ended June 30, 1977 and \$16.4 million in the six months ended June 30, 1978.

UNION OIL COMPANY OF CALIFORNIA AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All data with respect to the six months ended June 30, 1977 and 1978 are unaudited)

Note 15 — Research and Development Costs

Charges to income for research and development were as follows: \$11.0 million in 1973, \$16.0 million in 1974, \$18.6 million in 1975, \$17.2 million in 1976, \$17.1 million in 1977, \$11.5 million in the six months ended June 30, 1977 and \$12.8 million in the six months ended June 30, 1978.

Note 16 — Preferred Shares

The Preferred Shares were called for redemption as of March 10, 1978 at \$65 per share plus accrued dividends of \$.192 per share.

Increases and (decreases) in shares outstanding were as follows (dollars in thousands):

	Shares	Amount
Outstanding at December 31, 1972.....	9,828,262	\$104,496
Conversion into Common Shares.....	(181,565)	(1,967)
Outstanding at December 31, 1973.....	9,646,697	102,529
Conversion into Common Shares.....	(1,636,995)	(17,734)
Outstanding at December 31, 1974.....	8,009,702	84,795
Conversion into Common Shares.....	(1,175,183)	(12,731)
Outstanding at December 31, 1975.....	6,834,519	72,064
Conversion into Common Shares.....	(3,555,970)	(38,523)
Outstanding at December 31, 1976.....	3,278,549	33,541
Conversion into Common Shares.....	(1,058,905)	(9,495)
Outstanding at December 31, 1977.....	2,219,644	24,046
Conversion into Common Shares.....	(1,251,842)	(13,561)
Redeemed for cash.....	(967,802)	(10,485)
Outstanding at June 30, 1978.....	<u>—0—</u>	<u>\$ —0—</u>

Note 17 — Common Shares

Authorized — 65,000,000 Shares, Par Value \$8¼ Per Share.

At December 31, 1977 and June 30, 1978, 3,490,300 shares and 588,110 shares, respectively, were reserved for issuance as follows:

	December 31, 1977	June 30, 1978
Conversion of Preferred Shares.....	2,885,537	—
Conversion of 4¼ % Convertible Debentures.....	16,474	15,641
Future grants under options.....	391,590	391,841
Exercise of options.....	<u>196,699</u>	<u>180,628</u>
	<u>3,490,300</u>	<u>588,110</u>

UNION OIL COMPANY OF CALIFORNIA AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All data with respect to the six months ended June 30, 1977 and 1978 are unaudited)

Note 17 — Common Shares (Continued)

Increases and (decreases) in shares outstanding were as follows (dollars in thousands):

	Common Shares		Treasury Shares	
	Shares	Amount	Shares	Amount
Outstanding at December 31, 1972.....	31,410,635	\$261,756	1,040,303	\$ 8,670
Conversion of Preferred Shares.....	236,032	1,967		
Exercise of Warrants and Stock Options; Conversion of Debt Securities.....	12,549	104	(52)	(1)
Outstanding at December 31, 1973.....	31,659,216	263,827	1,040,251	8,669
Conversion of Preferred Shares.....	2,128,030	17,734		
Acquisition of Treasury Shares.....	(44,401)	(370)	44,401	370
Exercise of Warrants and Stock Options; Conversion of Debt Securities.....	12,888	107	(408)	(4)
Outstanding at December 31, 1974.....	33,755,733	281,298	1,084,244	9,035
Conversion of Preferred Shares.....	1,527,698	12,731		
Acquisition of Treasury Shares.....	(311)	(3)	311	3
Exercise of Warrants, Stock appreciation rights and Options; Conversion of Debt Securities.....	37,371	311	(550)	(5)
Outstanding at December 31, 1975.....	35,320,491	294,337	1,084,005	9,033
Conversion of Preferred Shares.....	4,621,229	38,510		
Exercise of Warrants, Stock appreciation rights and Options; Conversion of Debt Securities.....	371,204	3,094	(354,147)	(2,951)
Outstanding at December 31, 1976.....	40,312,924	335,941	729,858	6,082
Conversion of Preferred Shares.....	1,347,123	11,226		
Exercise of Warrants, Stock appreciation rights and Options; Conversion of Debt Securities.....	638,842	5,336	(729,858)	(6,082)
Outstanding at December 31, 1977.....	42,298,889	352,503	-0-	-0-
Conversion of Preferred Shares.....	1,625,389	13,545		
Exercise of Warrants, Stock appreciation rights and Options; Conversion of Debt Securities.....	15,788	102		
Outstanding at June 30, 1978.....	<u>43,940,066</u>	<u>\$366,150</u>	<u>-0-</u>	<u>\$ -0-</u>

UNION OIL COMPANY OF CALIFORNIA AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All data with respect to the six months ended June 30, 1977 and 1978 are unaudited)

Note 18 — Stock Options

Common Shares — Qualified and Nonqualified Stock Options

Under the Stock Option Plan of 1975, the Board of Directors is authorized to grant qualified or nonqualified options to officers and key employees of the Company and its consolidated subsidiaries to purchase, at market value at date of grant, up to 300,000 Common Shares. Options must be granted prior to January 27, 1985 (the termination date of the Plan) and contain cancellation provisions in the event of termination of employment, etc. Certain options may be exercisable until February 1, 1988.

Nonqualified stock options granted under the Plan may include stock appreciation rights either at the time of grant or by amendment. Settlement upon the exercise of a stock appreciation right is made in cash or shares or a combination thereof — as determined by the Company — the total amount of which is charged to expense.

The Stock Option Plan of 1975 replaces the Qualified Stock Option Plan of 1966 and the Nonqualified Stock Option Plan of 1970. The 1966 Plan expired on January 31, 1976. No additional options may be granted under the 1970 Plan. Certain options granted pursuant to the Nonqualified Stock Option Plan of 1970 may be exercisable until February 2, 1985.

Pursuant to the terms of the Agreement of Merger between the Company and Molycorp, Inc. each outstanding option under the Molycorp 1973 Employees Qualified Stock Option Plan became an option to purchase the number of whole shares of Union Common Stock which the holder would have been entitled to receive had he exercised the option in full immediately prior to the completion of the Merger. The option price per share of Union Common Stock is 96.62% of the per share option price applicable to shares of Molycorp Common Stock prior to the Merger. No additional options will be granted under the Plan. Certain options granted pursuant to this Plan may be exercisable until August 25, 1981.

Data regarding Common Shares under the Union qualified and nonqualified stock option plans at June 30, 1978 and as to options granted and options that became exercisable or were exercised during 1973 through June 30, 1978 are as follows:

	Shares	Option Price		Market Value	
		Per Share	Total	Per Share	Total
Under option at June 30, 1978.....	141,404	\$30.81-\$55.3125	\$4,947,098	\$30.81-\$55.3125(a)	\$4,947,098
Granted:					
1973.....	49,530	38.0625	1,885,236	38.0625 (a)	1,885,236
1974.....	171,736	30.8125	5,291,616	30.8125 (a)	5,291,616
1975.....	15,000	35.875	538,125	35.875 (a)	538,125
1976.....	None				
1977.....	21,460	55.3125	1,187,006	55.3125 (a)	1,187,006
Six months ended June 30, 1978.....	1,940	46.3125	89,846	46.3125 (a)	89,846

UNION OIL COMPANY OF CALIFORNIA AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All data with respect to the six months ended June 30, 1977 and 1978 are unaudited)

Note 18 — Stock Options (Continued)

	Shares	Option Price		Total	Market Value	
		Per Share			Per Share	Total
Became exercisable:						
1973.....	37,744	\$31.75	—\$38.0625	\$1,290,281	\$38.125—\$38.875 (b)	\$1,449,565
1974.....	96,537	30.8125—	38.0625	3,091,666	31.25 — 47.125 (b)	3,395,991
1975.....	100,152	30.8125—	35.875	3,131,257	36.125— 47.25 (b)	4,572,266
1976.....	14,862	30.8125—	35.875	502,806	42.50 — 44.44 (b)	646,185
1977.....	10,730	55.3125		593,503	51.56 (b)	553,266
Six months ended June 30, 1978.....	10,730	55.3125		593,503	49.31 (b)	529,123
Exercised:						
1973.....	8,516	31.75	— 38.0625	274,977	37.875— 50.375 (c)	381,608
1974.....	10,448	30.8125—	38.0625	337,620	34.50 — 55.38 (c)	427,922
1975.....	34,917	30.8125—	35.875	1,127,542	36.25 — 50.375 (c)	1,353,810
1976.....	14,640	30.8125—	35.875	461,592	42.13 — 58.31 (c)	731,036
1977.....	7,942	30.8125—	31.75	246,841	50.06 — 59.06 (c)	436,281
Six months ended June 30, 1978.....	2,755	30.8125—	31.75	86,510	47.875— 52.6875(c)	129,026

(a) At the date options were granted.

(b) At the date options became exercisable.

(c) At the date options were exercised.

Stock option data relating to the MolyCorp 1973 Employees Qualified Stock Option Plan from July 29, 1977 through June 30, 1978 are as follows:

	Shares	Option Price		Total	Market Price	
		Per Share			Per Share	Total
Under option at June 30, 1978.....	39,224	\$15.22—\$31.83		\$985,642	\$15.22—\$31.83(a)	\$985,642
Granted.....	None					
Became Exercisable:						
From July 29 through December 30, 1977...	17,125	\$16.43—\$29.23		\$382,735	\$50.88—\$55.50(b)	\$912,236
Six months ended June 30, 1978.....	2,241	\$31.83		\$ 71,322	\$48.81	\$109,389

UNION OIL COMPANY OF CALIFORNIA AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All data with respect to the six months ended June 30, 1977 and 1978 are unaudited)

Note 18 — Stock Options (Continued)

	Shares	Option Price		Market Price	
		Per Share	Total	Per Share	Total
Exercised:					
From July 29 through December 31, 1977....	15,268	\$15.22-\$31.83	\$269,536	\$50.38-\$56.06(c)	\$813,306
Six months ended June 30, 1978.....	12,202	\$15.22-\$31.83	\$227,940	\$47.44-\$51.31(c)	\$609,892

(a) At the date options were granted.

(b) At the date options became exercisable.

(c) At the date options were exercised.

Under these Plans, authorized but unissued shares have been delivered on the exercise of options and, where applicable, the settlement of stock appreciation rights. The excess of proceeds received over the par value of shares issued as the result of the exercise of stock options have been credited to the capital in excess of par or stated value of shares issued. Charges to income in connection with stock appreciation rights exercised under these plans were not material.

Note 19 — Incentive Compensation Plans

The Company has an Incentive Compensation Plan which provides that there may be established for each fiscal year an Incentive Compensation Fund from which annual awards may, at the discretion of the non-employee members of the Board of Directors, be granted to a limited number of executives and key employees. The fund for each fiscal year is based on the Company's consolidated net earnings after taxes for the year adjusted to exclude (a) the net effect of any incentive compensation awards granted (b) any extraordinary charges and credits (c) an amount equivalent to 6% of average share-owners' equity for the year. The maximum annual fund consists of not more than 3% of the balance of consolidated net earnings after such exclusions. Any annual fund may be allocated in whole or in part. Unallocated portions may, as determined by the Board, be carried forward and allocated in subsequent years.

Charges to income for awards under the Plan, in millions of dollars, were as follows: 1973, \$1.2; 1974, \$1.4; 1975, \$2.4; 1976, \$2.7; 1977, \$3.3; in the six months ended June 30, 1977, \$1.6; in the six months ended June 30, 1978, \$2.0.

UNION OIL COMPANY OF CALIFORNIA AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All data with respect to the six months ended June 30, 1977 and 1978 are unaudited)

Note 20 — Supplementary Information Relating to the Statement of Consolidated Earnings

	Year Ended December 31,					Six Months Ended June 30,	
	1973	1974	1975	1976	1977	1977	1978
	Millions of Dollars						
Maintenance and repairs.....	\$130.9	\$166.9	\$181.9	\$203.4	\$217.3	\$ 90.6	\$119.2
Taxes, other than income taxes							
Excise taxes.....	\$361.3	\$351.3	\$350.9	\$352.6	\$365.6	\$180.6	\$184.1
Severance and other taxes on production.....	23.0	67.7	100.3	90.0	88.9	47.4	40.2
Import taxes and duties.....	.6	29.2	89.8	13.0	10.1	4.5	4.3
Real and personal property taxes.....	48.7	52.2	56.8	60.6	64.5	32.3	35.2
Miscellaneous taxes.....	2.9	3.4	5.7	6.4	7.7	4.1	3.8
Total.....	\$436.5	\$503.8	\$603.5	\$522.6	\$536.8	\$268.9	\$267.6
Rents(a).....	\$ 80.9	\$ 94.8	\$103.3	\$112.9	\$116.1	\$ 53.7	\$ 46.5

(a) Excludes rentals in lieu of drilling on oil and gas leases.

Note 21 — Quarterly Results (Unaudited)

	1976 — Quarters			
	1st	2nd	3rd	4th
	Millions of Dollars except per share amounts			
Sales and Operating Revenues (excl. excise taxes).....	\$1,383.0	\$1,319.0	\$1,300.5	\$1,429.6
Gross Margin*.....	\$ 148.6	\$ 116.8	\$ 162.3	\$ 168.9
Earnings Before Taxes on Income.....	\$ 138.7	\$ 109.0	\$ 152.0	\$ 168.1
Net Earnings.....	\$ 69.0	\$ 56.6	\$ 73.8	\$ 86.4
Net Earnings Per Common Share.....				
Assuming no dilution.....	\$1.82	\$1.45	\$1.80	\$2.10
Assuming full dilution.....	\$1.54	\$1.26	\$1.64	\$1.92
	1977 — Quarters			
	1st	2nd	3rd	4th
	Millions of Dollars except per share amounts			
Sales and Operating Revenues (excl. excise taxes).....	\$1,356.1	\$1,457.9	\$1,381.1	\$1,473.4
Gross Margin*.....	\$ 141.7	\$ 174.0	\$ 200.7	\$ 150.2
Earnings Before Taxes on Income.....	\$ 140.9	\$ 158.0	\$ 176.7	\$ 130.4
Net Earnings.....	\$ 77.0	\$ 80.7	\$ 95.5	\$ 81.1
Net Earnings Per Common Share.....				
Assuming no dilution.....	\$1.83	\$1.90	\$2.24	\$1.89
Assuming full dilution.....	\$1.71	\$1.78	\$2.10	\$1.79

UNION OIL COMPANY OF CALIFORNIA AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All data with respect to the six months ended June 30, 1977 and 1978 are unaudited)

Note 21 — Quarterly Results (Unaudited) (Continued)

	1978 — Quarters	
	1st	2nd
	Millions of Dollars except per share amounts	
Sales and Operating Revenues (excl. excise taxes).....	\$1,353.0	\$1,496.7
Gross Margin*.....	\$ 170.0	\$ 184.5
Earnings Before Taxes on Income.....	\$ 151.9	\$ 181.2
Net Earnings.....	\$ 79.3	\$ 86.6
Net Earnings Per Common Share.....		
Assuming no dilution.....	\$1.84	\$1.97
Assuming full dilution.....	\$1.76	\$1.97

* Gross margin equals sales (excl. excise taxes) and other operating revenues less cost of products sold and operating expense, selling expense, depletion and depreciation, amortization of nonproductive acreage costs, provision for dry hole losses and property and other operating taxes.

Note 22 — Estimated Current Replacement Cost Data (Unaudited)

As required by the Securities and Exchange Commission, the Company has estimated replacement cost data for inventories and certain of its productive capacity (excluding underground oil and gas reserves and related facilities and mineral reserves), cost of sales, and depreciation expense.

The estimated cost of replacement is based on the hypothetical assumption that the Company would replace its inventories and productive capacity at the end of the year without regard as to whether such replacement was economically desirable or physically possible, or whether funds were available to finance such replacement. Therefore, the data should not be interpreted to indicate that the Company actually has plans to replace its inventories or productive capacity in its existing configuration, or that actual replacement would or could take place. Decisions on replacement will be made in the normal course of business, and will consider economic, regulatory and competitive conditions at the time.

Management strongly emphasizes that the replacement cost data are not intended to be in any way indicative of the current value of the assets to the Company nor of amounts at which the assets could be sold. Additionally, the data should not be used in a simplistic manner to develop the worth of the Company or a revised income figure. Any figures so derived could be misleading without taking into account many additional considerations.

Replacement cost data were estimated primarily by the use of engineering estimates and current costs of facilities to replace existing capacities or market existing volumes. Labor, maintenance and utility costs would decrease if capacity were replaced as assumed. However, such decrease would not be material in relation to total cost of products sold.

UNION OIL COMPANY OF CALIFORNIA AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All data with respect to the six months ended June 30, 1977 and 1978 are unaudited)

Note 22 — Estimated Current Replacement Cost Data (Unaudited) (Continued)

Reported historical cost data, amounts subject to replacement cost estimates (which include leased facilities, exclude facilities under construction, certain land, mineral reserves, and oil and gas reserves and facilities) and related replacement cost estimates are as follows:

	Millions of Dollars		
	Historical Cost		
	Per Financial Statements	Subject to Replacement Cost	Estimated Replacement Cost
Properties at December 31, 1977			
Petroleum operations:			
Exploration and production.....	\$3,711	\$ 21	\$ 37
Refining, marketing and transportation.....	1,687	1,761	4,603
Total.....	5,398	1,782	4,640
Chemical operations.....	490	363	814
Minerals operations.....	195	86	170
Other.....	127	140	321
Total.....	6,210	2,371	5,945
Less: accumulated depreciation and other allowances...	3,243	1,022	2,821
Net Investment.....	\$2,967	\$1,349	\$3,124
Depreciation, depletion and amortization expense;			
1976.....	\$484	\$ 84	\$186
1977.....	\$456	\$ 93	\$221
Inventories at December 31, 1977.....	\$437	\$437	\$724

Cost of products sold for 1976 and 1977 using inventory replacement cost data would not be materially higher than that reflected in the consolidated financial statements, since current costs are charged against earnings primarily under the last-in, first-out inventory method.

Note 23 — Affiliated Companies

Dividends received from affiliates, in million of dollars, were: \$11.5 in 1973, \$10.2 in 1974, \$10.0 in 1975, \$17.6 in 1976, \$16.8 in 1977, \$9.0 in the six months ended June 30, 1977 and \$8.0 in the six months ended June 30, 1978.

Note 24 — Changes to Oil and Gas Financial Accounting

In December, 1977, the Financial Accounting Standards Board issued a Statement which establishes standards of accounting and reporting for oil and gas producers. When implemented, certain modifications will be required in the Company's present accounting policies. It is estimated that such accounting changes will not have a significant impact upon the Company's financial reporting.

SILVER BELL INDUSTRIES, INC.
(A Development Stage Corporation)

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Stockholders and Board of Directors of
Silver Bell Industries, Inc.:

We have examined the balance sheet of Silver Bell Industries, Inc. (a development stage corporation) as of March 31, 1978, and the related statements of operations, changes in financial position, and stockholders' equity for each of the three years in the period ended March 31, 1978 and cumulative from January 1, 1966 (date of inception of the development stage) to March 31, 1978. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The statement of stockholders' equity for the period July 31, 1944 (date of incorporation of the predecessor) to December 31, 1965 (date preceding the inception of the development stage) is unaudited; therefore, balances for such periods included in proceeds in excess of par value and deficit accumulated since inception as of March 31, 1978 and all prior periods are unaudited.

The company has a substantial investment in unrecovered costs of mining claims and leases, and facilities and equipment. As explained in note 11 of notes to financial statements, the company has agreed, subsequent to March 31, 1978, subject to approval by the company's stockholders and certain other requirements, to sell substantially all of the company's assets to another company. Recovery of the company's investment is dependent upon either the ultimate approval of the aforementioned agreement and successful consummation of the sale or the successful development of its properties.

In our report dated June 30, 1977, our opinion on the 1977 and 1976 financial statements was qualified as being subject to the outcome of certain significant litigation. As explained in note 10 of notes to financial statements, the litigation has been settled without a significant adverse impact on the financial position of the company. Accordingly, our present opinion on the 1977 and 1976 financial statements, as presented herein, is different from that expressed in our previous report with respect to the effects of significant litigation.

In our opinion, subject to the ultimate realization of the assets referred to in the second preceding paragraph, the aforementioned financial statements present fairly the financial position of Silver Bell Industries, Inc. at March 31, 1978, and the results of its operations and changes in its financial position for each of the three years in the period ended March 31, 1978 and cumulative from January 1, 1966 (date of inception of the development stage) to March 31, 1978, in conformity with generally accepted accounting principles applied on a consistent basis.

COOPERS & LYBRAND

2300 Prudential Plaza
Denver, Colorado
June 19, 1978

SILVER BELL INDUSTRIES, INC.
(A Development Stage Corporation)

BALANCE SHEET
As of March 31, 1978

ASSETS

Current assets:

Cash.....	\$ 70,966
Accounts receivable.....	
Note receivable (Note 3).....	46,000
Accrued interest receivable.....	3,158
Prepaid expenses.....	181
Prepaid officer's bonus (Note 9).....	28,600
Total current assets.....	<u>148,905</u>
Unrecovered costs of mining claims and leases (Notes 7 and 10).....	4,286,956
Facilities and equipment, at cost	
Milling facilities.....	230,835
Mining equipment.....	158,319
Other.....	31,290
	<u>420,444</u>
Less accumulated depreciation.....	258,898
	<u>161,546</u>
Deferred charges and other.....	9,704
	<u>\$4,607,111</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Accounts payable.....	\$ 9,563
Accrued payroll and payroll taxes.....	2,795
Total current liabilities.....	<u>12,358</u>
Notes payable (Note 4).....	62,070
Commitments and contingencies (Notes 5 and 11)	
Stockholders' equity:	
Common stock, par value \$.25 per share (Notes 6 and 9):	
7,700,000 shares authorized, 7,572,388 shares issued and	
7,568,388 shares outstanding.....	1,893,097
Proceeds in excess of par value, net of deficit accumulated since inception.....	2,651,586
	<u>4,544,683</u>
Less cost of 4,000 shares of treasury stock.....	12,000
Total stockholders' equity.....	<u>4,532,683</u>
	<u>\$4,607,111</u>

The accompanying notes are a part of these financial statements.

SILVER BELL INDUSTRIES, INC.
(A Development Stage Corporation)

STATEMENTS OF OPERATIONS

	For the Year Ended March 31, 1976	For the Year Ended March 31, 1977	For the Year Ended March 31, 1978	Cumulative Amounts From January 1, 1966 (Date of Inception of the Development Stage) to March 31, 1978 (See Note 1)
Revenues:				
Revenue from assignments.....	\$ 11,354	\$ 100,000	\$ 62,087	\$ 206,829
Proceeds from sales of mining claims and leases.....				231,000
Sales of ore produced in the process of exploration.....	24,719			1,170,521
Royalty income.....	17,394	29,701	28,711	92,451
Interest income.....	4,088	6,205	3,428	23,583
Net gain on sale of land and equipment.....		97,389		181,596
Property evaluation fees.....			25,000	25,000
Other.....	13,875	10,183	4,023	76,015
	<u>71,430</u>	<u>243,478</u>	<u>123,249</u>	<u>2,006,995</u>
Expenses:				
Exploration expense.....	63,344	37,427	33,812	2,314,280
General and administrative expense (Note 9).....	115,322	330,219	220,672	1,751,240
Cost of mining claims and leases sold.....				91,639
Cost of mining claims and leases abandoned or lost.....	19,680	67,195	99,500	435,370
Interest expense.....	52,984	43,878	4,704	337,189
Depreciation.....				130,312
Other.....	38,223	44,692	45,727	136,642
	<u>289,553</u>	<u>523,411</u>	<u>404,415</u>	<u>5,196,672</u>
Net loss.....	<u>\$(218,123)</u>	<u>\$(279,933)</u>	<u>\$(281,166)</u>	<u>\$(3,189,677)</u>
Net loss per share of common stock (Note 8).....	<u>\$ (0.04)</u>	<u>\$ (0.05)</u>	<u>\$ (0.04)</u>	

The accompanying notes are a part of these financial statements.

SILVER BELL INDUSTRIES, INC.
(A Development Stage Corporation)

STATEMENTS OF CHANGES IN FINANCIAL POSITION

	For the Year Ended March 31, 1976	For the Year Ended March 31, 1977	For the Year Ended March 31, 1978	Cumulative Amounts From January 1, 1966 (Date of Inception of the Development Stage) to March 31, 1978 (See Note 1)
Sources of working capital:				
Common stock issued for cash or notes payable, plus interest.....	\$	\$ 650,747	\$246,501	\$2,453,584
Common stock issued for acquisitions of properties and in payment of expenses.....		658,989	680,000	4,755,958
Increase in long-term notes payable.....	50,000	790		1,155,104
Increase in convertible notes payable.....				401,989
Decrease in investments.....		98,086		147,930
Decrease in note receivable.....	46,550			68,928
Decrease in deferred charges and other assets.....		603		8,884
	<u>96,550</u>	<u>1,409,215</u>	<u>926,501</u>	<u>8,992,377</u>
Applications of working capital:				
Used in operations:				
Net loss.....	218,123	279,933	281,166	3,189,677
Add expenses not requiring an outlay of working capital:				
Depreciation.....				(130,312)
Mining claims and leases abandoned or lost.....	(19,680)	(67,195)	(99,300)	(435,370)
Net book value of facilities and equipment written off.....		(12,814)	(1,500)	(39,225)
Add proceeds under assignments credited against mining claims and leases.....	(112,346)	(65,000)	(67,913)	(445,321)
	<u>86,097</u>	<u>134,924</u>	<u>112,253</u>	<u>2,139,449</u>
Acquisition of mining claims and leases.....	5,100	614,332	671,773	4,679,973
Acquisition of facilities and equipment.....			74	288,262
Decrease in long-term notes payable.....	241,666	59,164		1,093,034
Decrease in convertible notes payable.....	24,684	128,580		401,989
Purchase of treasury stock.....	12,000			12,000
Increase in investments.....	5			122,217
Increase in notes receivable.....				68,928
Increase in deferred charges and other assets.....	15		5,197	18,588
	<u>369,567</u>	<u>937,000</u>	<u>789,297</u>	<u>8,824,440</u>
Increase (decrease) in working capital.....	(273,017)	472,215	137,204	167,937
Working capital (deficit) beginning of period.....	(199,855)	(472,872)	(657)	(31,390)
Working capital (deficit) end of period.....	<u>\$(472,872)</u>	<u>\$ (657)</u>	<u>\$136,547</u>	<u>\$ 136,547</u>
Summary of changes in components of working capital:				
Increase (decrease) in current assets:				
Cash.....	(523)	1,152	65,603	59,697
Accounts receivable.....	3,239	(5,247)	(353)	
Notes receivable.....	(60,000)	46,000		46,000
Accrued interest receivable.....	515	1,160	393	3,158
Prepaid expenses.....	50	99	(154)	181
Prepaid officer's bonus.....		36,250	(7,650)	28,600
Inventories.....	(9,876)			
Unregistered securities.....	(80,000)			
	<u>(146,595)</u>	<u>79,414</u>	<u>57,839</u>	<u>137,636</u>
Increase (decrease) in current liabilities:				
Accounts payable.....	(12,605)	(8,479)	(44,001)	9,563
Notes payable.....	121,496	(339,674)		(39,500)
Accrued interest payable.....	(7,319)	(34,616)	(891)	(1,358)
Accrued payroll and payroll taxes.....	(6,764)	32,081	(30,709)	2,795
Advances from stockholders.....	13,740	(13,740)		
Other current liabilities.....	17,874	(28,373)	(3,764)	(1,801)
	<u>126,422</u>	<u>(392,801)</u>	<u>(79,365)</u>	<u>(30,301)</u>
Increase (decrease) in working capital.....	<u>\$(273,017)</u>	<u>\$ 472,215</u>	<u>\$137,204</u>	<u>\$ 167,937</u>

The accompanying notes are a part of these financial statements.

SILVER BELL INDUSTRIES, INC.
(A Development Stage Corporation)

STATEMENTS OF STOCKHOLDERS' EQUITY

(Note A)

	Class A Stock at Par Value	Common Stock Shares	Par Value	Proceeds In Excess of Par Value	(Deficit) Accumulated Since Inception	Total Proceeds In Excess of Par Value Net of Deficit Accumulated Since Inception	Treasury Stock	Total Stockholders' Equity
I. For the period July 31, 1944 (date of incorporation of the predecessor) to December 31, 1965 (date preceding the inception of the development stage) (Unaudited):								
Issued for cash and notes payable (\$0.25 to \$2.25 per share).....	\$277,500	1,394,277	\$ 1,394,277	\$ 460,388		\$ 460,388		\$2,132,165
Conversion of Class A shares.....	(194,426)	194,426	194,426					
Issued for mining claims and leases.....		456,551	456,551					456,551
Issued in payment of general and administrative expenses.....		47,500	47,500					47,500
Net (loss).....					\$(2,111,398)	(2,111,398)		(2,111,398)
Balance at December 31, 1965.....	<u>83,074</u>	<u>2,092,754</u>	<u>2,092,754</u>	<u>460,388</u>	<u>(2,111,398)</u>	<u>(1,651,010)</u>		<u>524,818</u>
II. For the period January 1, 1966 (date of inception of the development stage) to March 31, 1975:								
A. January 1, 1966 to October 31, 1969 (effective date of acquisition of predecessor by successor):								
Reduction of par from \$1.00 per share to \$0.25 per share.....	(62,306)		(1,569,565)	1,631,871		1,631,871		
Issued in payment of notes payable plus accrued interest.....		600,403	150,100	371,313		371,313		521,413
Issued to stockholders of Silver Clad Mines, Inc.....		212,005	53,001	282,874		282,874		335,875
Conversion of Class A shares.....	(20,768)	83,072	20,768	(5,770)		(5,770)		(5,770)
Issued for mining claims and leases.....		352,060	88,015	872,909		872,909		960,924
Issued in payment of general and administrative expenses.....		80,750	20,188	59,713		59,713		79,901
Purchase of 500 shares of Treasury stock, at cost.....							\$ (125)	(125)
Net (loss).....					(639,829)	(639,829)		(639,829)
Total for the period January 1, 1966 to October 31, 1969.....	<u>(83,074)</u>	<u>1,328,290</u>	<u>(1,237,493)</u>	<u>3,212,910</u>	<u>(639,829)</u>	<u>2,573,081</u>	<u>(125)</u>	<u>1,252,389</u>
Balance at October 31, 1969 before acquisition of predecessor by successor (Note A).....	<u>\$ —</u>	<u>3,421,044</u>	<u>\$ 855,261</u>	<u>\$3,673,298</u>	<u>\$(2,751,227)</u>	<u>\$ 922,071</u>	<u>\$ (125)</u>	<u>\$1,777,207</u>

SILVER BELL INDUSTRIES, INC.
(A Development Stage Corporation)

STATEMENTS OF STOCKHOLDERS' EQUITY (Continued)

(Note A)

	Class A Stock at Par Value	Common Stock Shares	Common Stock Par Value	Proceeds In Excess of Par Value	(Deficit) Accumulated Since Inception	Total Proceeds In Excess of Par Value Net of Deficit Accumulated Since Inception	Treasury Stock	Total Stockholders' Equity
II. For the period January 1, 1966 (date of inception of the development stage) to March 31, 1975, continued:								
B. Issued by Silver Bell Industries, Inc., effective October 31, 1969, for net assets of predecessor.....		3,421,044	\$ 855,261	\$3,673,298	\$ (2,751,227)	\$ 922,071	\$ (125)	\$1,777,207
Balance at October 31, 1969 (Note A).....		3,421,044	855,261	3,673,298	(2,751,227)	922,071	(125)	1,777,207
C. November 1, 1969 to March 31, 1975:								
Issued for cash (\$0.75 to \$1.50 per share).....		439,139	109,785	346,519		346,519		456,304
Exercise of stock options.....		68,333	17,083	34,166		34,166		51,249
Issued in payment of notes payable plus accrued interest.....		592,408	148,102	385,038		385,038		533,140
Issued for mining claims and leases.....		1,367,500	341,875	1,643,725		1,643,725		1,985,600
Issued in payment of: Exploration expenses.....		22,200	5,550	19,700		19,700		25,250
General and administrative expenses.....		4,146	1,037	28,507		28,507		29,544
Retirement of 500 shares of Treasury stock, at cost.....		(500)	(125)				125	
Net (loss).....					(1,770,626)	(1,770,626)		(1,770,626)
Total for the period November 1, 1969 to March 31, 1975.....		2,493,226	623,307	2,457,655	(1,770,626)	687,029	125	1,310,461
Balance at March 31, 1975 (Note A).....		5,914,270	1,478,568	6,130,953	(4,521,853)	1,609,100	—	3,087,668
III. For the year ended March 31, 1976:								
Purchase of 4,000 shares of Treasury stock, at cost.....							(12,000)	(12,000)
Net (loss).....					(218,123)	(218,123)		(218,123)
Total for the year ended March 31, 1976.....					(218,123)	(218,123)	(12,000)	(230,123)
Balance at March 31, 1976 (Note A), forward.....		5,914,270	1,478,568	6,130,953	(4,739,976)	1,390,977	(12,000)	2,857,545

SILVER BELL INDUSTRIES, INC.
(A Development Stage Corporation)

STATEMENTS OF STOCKHOLDERS' EQUITY (Continued)

(Note A)

	Class A Stock at Par Value	Common Stock		Proceeds In Excess of Par Value	(Deficit) Accumulated Since Inception	Total Proceeds In Excess of Par Value Net of Deficit Accumulated Since Inception	Treasury Stock	Total Stockholders' Equity
		Shares	Par Value					
IV. For the year ended March 31, 1977:								
Issued in payment of notes payable plus accrued interest.....		547,830	\$ 136,957	\$ 416,895		\$ 416,895		\$ 553,852
Exercise of stock options.....		96,732	24,183	70,217		70,217		94,400
Issued for mining claims and leases (Note B).....		330,269	82,567	542,444		542,444		625,011
Issued in payment of:								
Interest on deposits.....		2,639	660	1,835		1,835		2,495
Exploration expenses.....		2,500	625	4,625		4,625		5,250
General and administrative expenses.....		13,680	3,420	25,308		25,308		28,728
Net (loss).....					\$ (279,933)	(279,933)		(279,933)
Total for the year ended March 31, 1977.....		993,650	248,412	1,061,324	(279,933)	781,391		1,029,803
Balance at March 31, 1977 (Note A).....		6,907,920	1,726,980	7,192,277	(5,019,909)	2,172,368	(12,000)	3,887,348
V. For the year ended March 31, 1978:								
Exercise of stock options.....		264,468	66,117	180,384		180,384		246,501
Issued for mining claims and leases (Note B).....		400,000	100,000	580,000		580,000		680,000
Net (loss).....					(281,166)	(281,166)		(281,166)
Total for the year ended March 31, 1978.....		664,468	166,117	760,384	(281,166)	479,218		645,335
Balance at March 31, 1978 (Note A).....		7,572,388	\$ 1,893,097	\$7,952,661	\$ (5,301,075)	\$2,651,586	\$ (12,000)	\$4,532,683

Note A: Amounts applicable to Class A shares, proceeds in excess of par value and deficit accumulated since inception for all periods preceding January 1, 1966 (date of inception of the development stage) have not been audited. Records of the predecessor companies are not complete and the details are not subject to audit. Transactions from January 1, 1966 to March 31, 1978 have been audited. (See Note 1).

Note B: Includes totals of \$42,727 in 1978 and \$33,378 in 1977 for properties sold in previous years which amounts were expensed currently.

The accompanying notes are a part of these financial statements.

SILVER BELL INDUSTRIES, INC.

(A Development Stage Corporation)

NOTES TO FINANCIAL STATEMENTS

1. Organization and Status of the Company:

Silver Bell Mines Co., the predecessor to Silver Bell Industries, Inc., was incorporated in Colorado on July 31, 1944. During the period from 1944 to 1954, the company acquired certain mining claims located near Ophir, Colorado, developed the properties and mined ore which was processed in a mill constructed by the company. Substantial operating losses were incurred, and in 1954 the company ceased operations. From 1954 to 1965, the company was relatively inactive.

In 1966, Silver Bell Mines Co. was reactivated and commenced claim acquisition and evaluation work on a limited basis. In 1967 the company acquired additional claims and commenced exploration. This claim acquisition and exploration activity continued through 1968. Also during 1968, the company completed substantial repair and rehabilitation of its milling facilities. In 1969, the company started processing ore produced incidental to exploration of certain properties owned by Silver Clad Mines, Inc. (Silver Clad was acquired in a stock-for-assets exchange by Silver Bell Mines Co. in August 1969, with the transaction accounted for on a pooling-of-interests basis.)

Silver Bell Industries, Inc. was incorporated in Colorado on September 15, 1969 for the purpose of acquiring the net assets of Silver Bell Mines Co. This acquisition was approved by the stockholders of Silver Bell Mines Co. on October 30, 1969, and became effective on October 31, 1969.

In November 1972, Silver Bell Industries, Inc. acquired substantially all of the assets (primarily undeveloped uranium mining claims and leases) and assumed substantially all of the liabilities of Petro-Nuclear Ltd. in a nontaxable transaction for 1,200,000 shares of the company's common stock. (The transaction was accounted for as a purchase for reporting purposes.) In addition, subject to stockholder approval of an increase in the authorized shares of Silver Bell Industries, Inc. and subject to certain other matters, the company agreed to issue to the former stockholders of Petro-Nuclear Ltd. up to a maximum of 800,000 additional shares of common stock. During fiscal 1976, the company became involved in litigation concerning this acquisition. During fiscal 1977 the stockholders of Silver Bell Industries, Inc. approved an increase in the authorized shares of the company. The company reached settlements during fiscal 1977 with certain, but not all, of the former shareholders of Petro-Nuclear Ltd., and subsequently settled with the remaining former shareholders of Petro-Nuclear Ltd. during fiscal 1978. This transaction and associated litigation is further discussed in note 10.

As of March 31, 1978 the company was involved in discussions and negotiations with another company relative to a potential sale of substantially all of Silver Bell's assets to such other company. Such discussions and negotiations constituted the primary activities in which the company was engaged as of March 31, 1978.

See note 11 for subsequent event.

2. Summary of Significant Accounting Policies:

Unrecovered Costs of Mining Claims and Leases:

Mining claims and leases are carried at cost. The cost of those claims and leases acquired with cash or its equivalent is the amount of cash or its equivalent given for such properties. The costs of those claims and leases acquired through the issuance of common stock is the estimated fair value of the stock given for such properties at the time such properties are acquired.

Gain or loss on sales of mining claims and leases is included in income. When an interest is retained in a property which is sold, the cost of the property is allocated between the interest retained

SILVER BELL INDUSTRIES, INC.

(A Development Stage Corporation)

NOTES TO FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies (Continued):

and the interest sold on the basis of their respective estimated fair values. Gain or loss is recognized equal to the difference between the cost allocated to the interest sold and the related proceeds of sale. A transaction wherein the company nominally sells mining claims and leases is accounted for as an assignment of an operating interest if certain factors are included in the contract. See *assignments* below.

Option payments received on mining claims and leases pursuant to an agreement which only provides that the optionee may subsequently elect to purchase the optioned property are recorded as deferred credits. If the option is not exercised by the optionee, the payments which have been received are credited to income in the period the option expires. If the option is exercised by the optionee, the payments which have been received are included as part of the sales price. An option agreement which provides that the optionee may both explore the property and may subsequently elect to purchase the optioned property is accounted for as an assignment. See *assignments* below. Payments received from a potential purchaser for the right to inspect the accounting and geological records of the company are credited to income as property evaluation fees when the agreed upon inspection period has ended.

Assignments of mining claims and leases include not only those transactions which are direct assignments, but may also include transactions which are in the form of sales agreements and transactions which are in the form of option agreements. Those transactions which include all of the following factors are recorded as assignments:

- The company may receive additional amounts under the contract as a result of elective completion of the terms of the contract by the other party to the transaction.
- The other party to the transaction has the right, subsequent to the date of the contract, to explore and/or develop the property.
- Failure of the other party to the transaction to complete the terms of the contract will result in reacquisition by the company of all of its pre-contract ownership interests in the subject claims and leases.

When all of the above factors are present, a transaction is recorded as an assignment of a property interest.

Under an assignment, a substantial portion of the proceeds which may be received by the company is dependent upon the elective continuation in the arrangement by the assignee. Accordingly, the fair value of potential future proceeds to be received cannot be determined. Any nonrefundable amounts (including any nonrefundable amounts which may be recoverable by the payor out of potential future production) are credited to the carrying value of the property. Amounts received prior to production in excess of the carrying value of the property are credited to income. If production commences, any subsequent production payments received by the company are credited to income and the remaining carrying value of the claims or leases, if any, is amortized over future estimated production.

The costs of abandoned mining claims and leases constituting an entire area of interest are charged to income. The costs of abandoned mining claims and leases which are deemed nonessential to a retained area of interest are allocated to the retained acreage.

Facilities and Equipment:

Facilities and equipment are carried at cost. The cost of facilities and equipment acquired with cash or its equivalent is the amount of cash or its equivalent given for such properties. The cost of

SILVER BELL INDUSTRIES, INC.

(A Development Stage Corporation)

— NOTES TO FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies (Continued):

facilities and equipment acquired through the issuance of common stock is the estimated fair value of the stock given for such properties at the time such properties are acquired. Maintenance and repairs are charged against income as incurred. Expenditures for major betterments are capitalized. Gain or loss on retirement or disposition of facilities and equipment is included in income.

As a result of a shutdown of milling and mining operations during the years ended March 31, 1976, 1977, and 1978, no depreciation on facilities and equipment has been charged to income for those periods.

Except for \$15,000 of fire insurance on milling facilities, the company is self-insuring its facilities and equipment.

Exploration and Development:

Exploration costs (those expenditures incurred in the search for and definition of commercially recoverable reserves) are charged against income as incurred. Development costs (those expenditures incurred in connection with bringing a property into production after it has been determined that a commercially recoverable reserve exists on the property) are capitalized to the related property.

3. Note Receivable:

The note receivable is from a Director and Officer. On May 11, 1976, the Board of Directors authorized the sale of undeveloped real estate (which had a carrying value of \$98,086) to a Director and Officer for a total consideration of \$196,000 which was considered by the company to approximate fair value. The sale was finalized on June 30, 1976. Consideration was comprised of a \$100,000 down payment and a 7% note for \$96,000. Payment of \$50,000 plus accrued interest was received by the company on March 31, 1977 and \$46,000 plus accrued interest receivable was due March 31, 1978. Interest was received through March 31, 1978, and the due date has been extended until February 1, 1979. The unpaid balance is collateralized by a Note and Deed of Trust on the undeveloped real estate which was sold.

4. Notes Payable:

Notes payable as of March 31, 1978 consist of the following:

7% uncollateralized note; dated March 29, 1974 and originally due April 30, 1975; extended at various times; as of March 31, 1978 the note was due April 30, 1978, but subsequent to the balance sheet date the note was extended to April 30, 1979.....	\$12,070
7% uncollateralized note; dated September 6, 1973 and originally due September 6, 1974; extended at various times, most recently providing that the note is payable in its entirety plus interest on May 31, 1979.....	50,000
	<u>\$62,070</u>

5. Commitments and Contingencies:

The assets acquired from Petro-Nuclear Ltd. (see note 10) include an approximate 35% interest in a joint venture formed to explore and develop certain uranium properties in Wyoming. The company is responsible for its proportionate share of the capital expenditures for the mining and

SILVER BELL INDUSTRIES, INC.

(A Development Stage Corporation)

NOTES TO FINANCIAL STATEMENTS (Continued)

5. Commitments and Contingencies (Continued):

milling of uranium reserves on the properties, but may elect to have such expenditures carried by the operator and amortized from 90% of the production attributable to its interest. The company has been informed by the operator that it has been carried for approximately \$10,271,000 of expenditures as of March 31, 1978. This amount has not been reflected in the financial statements.

The company is committed to make an annual payment of \$20,000 for certain mining claims pursuant to a May 1970 option agreement (amended in January 1972). Through March 31, 1978, the company has met the requirements of the agreement, as amended. Pursuant to this agreement, future option payments totaling \$100,000 are required relative to these claims. This amount is not reflected in the balance sheet as of March 31, 1978. In addition, the company is committed to make annual payments totaling \$3,600 for certain other mining claims pursuant to the above noted agreement. Pursuant to this agreement, future option payments of approximately \$77,500 are required relative to these claims. This amount is not reflected in the balance sheet as of March 31, 1978. If all of the above minimum option payments are not made, the claims revert to the original owner.

Under current agreements the required annual assessment work to maintain rights in most of the unpatented mining claims will be performed by others.

See note 6 for data as to common stock reserved and contingently issuable.

In connection with option, sale and assignment agreements relative to certain of the company's mining claims and leases, the company may receive additional proceeds in the form of option payments and minimum, advance and production royalties in the future.

6. Common Stock Reserved and Contingently Issuable:

Stock Options:

At March 31, 1976, options to buy 361,200 shares of the company's common stock were outstanding to certain stockholders of the company. During the fiscal year ended March 31, 1977 no additional options were granted and options for 96,732 shares were exercised (9,332 and 87,400 for \$.75 and \$1.00, respectively, per share).

As of March 31, 1977, options to buy 264,468 shares of the company's common stock were outstanding to certain stockholders of the company. Included therein were options for 30,000 shares at \$1.00 per share outstanding to a Director and Officer of the company. The options were granted in connection with the acquisition of mining claims and leases and in connection with certain financing arrangements. At various times the expiration dates of these options have been extended, and as of March 31, 1977, they were due to expire on September 30, 1977. Data relative to these options as of March 31, 1977 follows:

Initial Fiscal Year Option Granted	Option Price			Totals	
	\$.75	\$1.00	\$1.25	Shares	Dollars
1971.....			22,800	22,800	\$ 28,500
1972.....			6,000	6,000	7,500
1973.....	130,668		50,000	180,668	160,501
1975.....	20,000	35,000		55,000	50,000
Totals.....	<u>150,668</u>	<u>35,000</u>	<u>78,800</u>	<u>264,468</u>	<u>\$246,501</u>

SILVER BELL INDUSTRIES, INC.

(A Development Stage Corporation)

NOTES TO FINANCIAL STATEMENTS (Continued)

6. Common Stock Reserved and Contingently Issuable (Continued):

Option prices at the date of the grants were established by the Board of Directors. The options were exercisable at the dates of the grants, or thereafter, and in certain cases (including all extensions during fiscal 1977) were subject to the availability of authorized and unissued stock. All material option grants were made at prices equal to or in excess of estimated fair value of the stock. Accordingly, there have been no charges to income in connection with the options granted.

During fiscal 1978, some of the above options were extended to March 15, 1978, and options to purchase the entire 264,468 shares were exercised at the prices indicated in the above table. There were no options outstanding at March 31, 1978.

Pending Acquisition:

On September 6, 1973 the company entered into an interim agreement to acquire all of the assets (primarily notes receivable and unpatented, patented and placer mining claims) of The Mancos Corporation in exchange for 125,000 shares of the company's common stock. The Mancos Corporation has loaned the company \$50,000 which is evidenced by a 7% uncollateralized note, originally due September 6, 1974, which has been extended at various times and is now due May 31, 1979. The interim agreement with The Mancos Corporation provided, among other things, that subsequent to the date of the agreement and prior to closing on the agreement, Silver Bell would not issue any stock. Silver Bell issued stock subsequent to the date of the interim agreement, however, management indicated that Mancos verbally agreed to waive the prohibition regarding stock issuance. Accordingly, 125,000 shares of Silver Bell were contingently issuable in connection with this proposed transaction at March 31, 1978.

See note 11 for subsequent event.

7. Income Taxes

As of March 31, 1978, the company has accumulated operating losses for tax purposes of approximately \$1,239,000 which amount is available for deduction from taxable income of future years. If not utilized, these estimated tax loss carryforwards will expire as follows:

<u>Expires March 31,</u>	<u>Amount</u>
1979.....	\$ 197,000
1980.....	263,000
1983.....	139,000
1984.....	245,000
1985.....	395,000
	<u>\$1,239,000</u>

Tax returns for the years in which these estimated loss carryovers were created have not been examined by the Internal Revenue Service.

The company uses the flow through method of accounting for investment tax credits under which the allowable credit is recorded as a reduction of the provision for federal income taxes in the

SILVER BELL INDUSTRIES, INC.

(A Development Stage Corporation)

NOTES TO FINANCIAL STATEMENTS (Continued)

7. Income Taxes (Continued):

year in which such credits are utilized. Unused investment tax credits amount to approximately \$2,000 at March 31, 1978.

Operations for the years ended March 31, 1976, 1977 and 1978 resulted in losses for both book and tax purposes. Therefore, no provision for income taxes is required.

The book basis of unrecovered costs of mining claims and leases exceeds the estimated tax basis by approximately \$2,700,000 at March 31, 1978.

8. Net Loss Per Share of Common Stock:

Net loss per share is based upon the weighted average number of shares outstanding of 5,911,270 for the year ended March 31, 1976, 6,067,308 for the year ended March 31, 1977 and 7,201,709 for the year ended March 31, 1978.

9. Related Party Transactions:

Mr. Eugene H. Sanders, President and Treasurer and a major stockholder of Silver Bell Industries, Inc. has effected various transactions with the company during the three years ended March 31, 1978. The most significant of these transactions are as follows:

Convertible Notes Payable:

Convertible notes were issued to Mr. Sanders at various times from 1970 through 1975. The notes were issued for cash loans made by Mr. Sanders to the company. The notes had interest rates of 7% to 10%. At March 31, 1976, the principal amounts of the notes totaled \$326,605. During fiscal 1977, these notes, plus accrued interest thereon, were converted by Mr. Sanders into 362,190 shares of common stock.

Stock Options:

As described in note 6, options to purchase 264,468 shares of common stock were exercised during fiscal 1978. Mr. Sanders purchased a total of 30,000 of these shares during fiscal 1978 at \$1.00 per share. During fiscal 1977, Mr. Sanders purchased 20,000 shares under similar option agreements. Market values of the stock at the dates of exercise were \$1.65 per share (10,500 shares) and \$2.10 per share (19,500 shares) and \$58,275 in total in fiscal 1978, and \$1.75 per share and \$35,000 in total in fiscal 1977. There were no options outstanding at March 31, 1978.

Bonus:

Pursuant to resolutions by the Board of Directors, bonuses of \$50,000 in fiscal 1978 and \$150,000 in fiscal 1977 were authorized to a Director and Officer of the company (Mr. Sanders). The bonuses declared were applicable to more than one fiscal year, and certain amounts were prepaid at the end of each fiscal year. Accordingly, \$77,650 was charged to expense in fiscal 1978 and \$28,600 has been reported as prepaid officer's bonus at March 31, 1978, and \$93,750 was charged to expense in fiscal 1977.

Sale of Undeveloped Real Estate:

As described in note 3, certain undeveloped real estate was sold to a Director and Officer of the company (Mr. Sanders) during fiscal 1977.

SILVER BELL INDUSTRIES, INC.

(A Development Stage Corporation)

NOTES TO FINANCIAL STATEMENTS (Continued)

9. Related Party Transactions (Continued):

Various members of the Board of Directors effected transactions with the company during the three years ended March 31, 1978. A summary of the most significant of these transactions follows:

Convertible Notes Payable:

Convertible notes were issued in prior periods to various individuals who were members of the Board of Directors during all or part of fiscal 1977. The notes were issued primarily for cash loans, and had interest rates of 7%-10%. During fiscal 1977, all of these convertible notes (which had principal amounts totaling \$64,313 at March 31, 1976) were converted (plus interest) into 73,650 shares of common stock by individuals (excluding Mr. Sanders) who were members of the Board of Directors during all or part of fiscal 1977.

Stock Options:

Options to purchase 96,732 shares of common stock were exercised during fiscal 1977. A member of the Board of Directors (excluding Mr. Sanders) purchased 30,000 of these shares. Market value of the stock at the date of exercise was \$1.75 per share or \$52,500 in total. Excluding Mr. Sanders, none of the members of the Board of Directors had remaining options to purchase shares at March 31, 1977. As described in note 6, there were no options outstanding at March 31, 1978.

10. Litigation:

In November of 1972, the company acquired substantially all of the assets (primarily undeveloped mining claims and leases) and assumed substantially all of the liabilities of Petro-Nuclear Ltd. in a nontaxable transaction for 1,200,000 shares of the company's common stock. In addition, subject to shareholder approval of an increase in the authorized shares of the company, and subject to other matters, the company agreed to issue to the former shareholders of Petro-Nuclear Ltd. up to a maximum of 800,000 additional shares of the company's common stock.

Commencing in November 1975 the company has been involved in litigation with the former shareholders of Petro-Nuclear Ltd. involving claims and counter-claims relative to the acquisition of Petro-Nuclear Ltd.

Agreements for settlement of these lawsuits and for equitable settlements with non-litigant former shareowners of Petro-Nuclear Ltd. were entered into in December of 1976. Two agreements provided for the issuance and delivery of a total of 280,269 shares of Silver Bell stock to certain litigants in final settlement and to certain non-litigants in equitable settlement of all asserted or potential claims relative to their interests in the Petro-Nuclear Ltd. acquisition. A contingent agreement with the remaining former shareholders of Petro-Nuclear Ltd. provided for the issuance of 321,406 shares of Silver Bell stock and promissory notes totaling \$128,284 in settlement. The 321,406 shares and the notes were placed in escrow.

The conditions of the contingent agreement were not met and, accordingly, the contingent agreement with the remaining former shareholders of Petro-Nuclear Ltd. became of no force and effect. The 321,406 shares and the notes were removed from escrow in April of 1977.

In September of 1977, an agreement for settlement of the lawsuit was entered into with the remaining former shareholders of Petro-Nuclear, Ltd. The agreement provided for the issuance and delivery of a total of 400,000 shares of Silver Bell stock to the remaining litigants in final settlement

SILVER BELL INDUSTRIES, INC.

(A Development Stage Corporation)

NOTES TO FINANCIAL STATEMENTS (Continued)

10. Litigation (Continued):

of all asserted or potential claims relative to their interests in the Petro-Nuclear Ltd. acquisition. Such shares were issued and delivered on September 29, 1977.

As a result of the above, there is no remaining litigation with respect to the Petro-Nuclear Ltd. acquisition as of March 31, 1978.

The estimated fair market values at the times of issuance of the shares of common stock issued during fiscal 1978 and 1977 for final settlement with all of the litigants in the Petro-Nuclear Ltd. litigation, as described above, have been charged to the mining claims and leases account (and credited to appropriate stockholders' equity) during the appropriate year. To the extent that properties which were included in the Petro-Nuclear Ltd. acquisition have been sold in current or prior periods, amounts otherwise currently allocable to such properties have been charged to income during both fiscal 1978 and 1977.

11. Subsequent Events:

The following significant events occurred subsequent to March 31, 1978:

Sale of the Company:

As of May 15, 1978, the company entered into an agreement and plan of reorganization with Union Oil Company of California (Union) and Minerals Exploration Company (Minerals), a wholly-owned subsidiary of Union. The agreement provides for the transfer of substantially all of the assets of the company to Minerals in exchange for 418,095 shares of Union common stock and the assumption by Minerals of certain liabilities and obligations of the company. The transaction is intended to qualify under Section 368(a)(1)(C) of the Internal Revenue Code of 1954 as an exchange tax-free to the company. Pursuant to this agreement, certain information will be filed with the Securities and Exchange Commission to complete this transaction, and the agreement requires approval by at least two-thirds of the holders of the company's outstanding common stock. If the agreement is approved, the Union stock will be distributed to the stockholders of the company according to their respective interests and Silver Bell will then be dissolved pursuant to applicable state laws.

Cancellation of Interim Agreement with The Mancos Corporation:

On June 19, 1978, the company signed a Conditional Release Agreement which provides for the cancellation of the interim agreement described in note 6. Accordingly, the 125,000 shares of Silver Bell which were contingently issuable at March 31, 1978 will not be issued. Closing and completion of the Conditional Release Agreement is dependent upon approval by Mancos, Union and Minerals of an agreement for Minerals to acquire all of the assets of Mancos in exchange for Union stock. The agreement between Mancos, Union and Minerals is contingent upon completion of the agreement between Silver Bell and Minerals, and must be approved by the holders of at least two-thirds of Mancos common stock.

SILVER BELL INDUSTRIES, INC.

(A Development Stage Corporation)

**UNAUDITED SUPPLEMENTAL INFORMATION RELATIVE TO
CASH RECEIPTS AND DISBURSEMENTS**

The following is an unaudited schedule of cash receipts and disbursements for the three month period ended June 30, 1978:

CASH RECEIPTS

Lease security deposit refunds.....	<u>\$ 420</u>
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CASH DISBURSEMENTS

General and administrative.....	\$36,264
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Exploration.....	6,230
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Other.....	5,010
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Total Cash Disbursements.....	<u>\$47,504</u>
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THE MANCOS CORPORATION

UNAUDITED FINANCIAL STATEMENTS

December 31, 1977, 1976, and 1975

THE MANCOS CORPORATION

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ACCOUNTANTS' DISCLAIMER OF OPINION

Board of Directors
The Mancos Corporation
Rocky Ford, Colorado

The accompanying balance sheet of The Mancos Corporation as of December 31, 1977, 1976, and 1975, and the related statements of operations, accumulated deficit and changes in financial position for the years then ended were not audited by us and accordingly we express no opinion on them.

GRIMSLEY, WHITE & COMPANY

March 2, 1978 except for Notes
3 and 6 as to which the dates
are March 31, 1978 and September
27, 1978.

THE MANCOS CORPORATION

BALANCE SHEET

(Unaudited)

December 31, 1977, 1976, and 1975

ASSETS

	1977	1976	1975
CURRENT ASSETS			
Cash in bank.....	\$ 367	\$ 2,197	\$ 1,663
Interest receivable.....	1,613	559	1,259
TOTAL CURRENT ASSETS	<u>1,980</u>	<u>2,756</u>	<u>2,922</u>
LAND, EQUIPMENT AND BUILDINGS (Note 1A)			
Land.....	13,417	13,417	13,417
Equipment and buildings.....	21,540	21,540	21,540
	<u>34,957</u>	<u>34,957</u>	<u>34,957</u>
Accumulated depreciation.....	14,946	14,946	14,946
NET LAND, EQUIPMENT AND BUILDINGS	<u>20,011</u>	<u>20,011</u>	<u>20,011</u>
OTHER ASSETS			
Note receivable — stockholder (Note 2).....	30,000	30,000	30,000
Note receivable — Silver Bell Industries, Inc. (Note 3).....	50,000	50,000	50,000
Development and exploration cost (Note 1B).....	133,980	133,980	133,980
Reorganization cost (Note 1C).....	9,983	9,983	9,983
TOTAL OTHER ASSETS	<u>223,963</u>	<u>223,963</u>	<u>223,963</u>
TOTAL ASSETS	<u><u>\$245,954</u></u>	<u><u>\$246,730</u></u>	<u><u>\$246,896</u></u>

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES			
Accounts payable — trade.....	\$ 100	\$ 100	\$ 100
Accrued payroll.....	356	346	348
Accrued payroll tax.....	241	262	221
Accrued property tax.....	809	955	955
Deferred interest income.....	-0-	-0-	1,797
TOTAL CURRENT LIABILITIES	<u>1,506</u>	<u>1,663</u>	<u>3,421</u>
STOCKHOLDERS' EQUITY			
Capital stock (Note 4).....	17,652	17,652	17,652
Paid in capital.....	362,222	362,222	362,222
Accumulated deficit.....	(135,426)	(134,807)	(136,399)
TOTAL STOCKHOLDERS' EQUITY	<u>244,448</u>	<u>245,067</u>	<u>243,475</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u><u>\$245,954</u></u>	<u><u>\$246,730</u></u>	<u><u>\$246,896</u></u>

These Unaudited Financial Statements Should Be Read Only In
Connection With The Accountants' Report, Footnotes And
Statements Of Accounting Policy.

THE MANCOS CORPORATION

STATEMENT OF OPERATIONS
(Unaudited)

For the Years Ended December 31, 1977, 1976, and 1975

	<u>1977</u>	<u>1976</u>	<u>1975</u>
INCOME			
Interest.....	\$ 5,517	\$ 7,980	\$ 5,600
Royalty income.....	203	197	351
TOTAL INCOME	<u>5,720</u>	<u>8,177</u>	<u>5,951</u>
OPERATING EXPENSES			
Accounting.....	200	275	265
Amortization.....	-0-	-0-	38
Insurance.....	155	120	-0-
Legal expense.....	15	24	32
Salaries.....	4,800	4,800	4,800
Taxes — payroll.....	418	369	302
Taxes — property.....	699	955	993
Office supplies and expense.....	47	42	41
Interest expense.....	5	-0-	-0-
TOTAL OPERATING EXPENSES	<u>6,339</u>	<u>6,585</u>	<u>6,471</u>
NET INCOME (LOSS) FOR THE YEAR	<u>\$ (619)</u>	<u>\$ 1,592</u>	<u>\$ (520)</u>
INCOME (LOSS) PER SHARE (Note 5)	<u><u>\$ (.00035)</u></u>	<u><u>\$.0009</u></u>	<u><u>\$ (.0003)</u></u>

These Unaudited Financial Statements Should Be Read Only In
Connection With The Accountants' Report, Footnotes And
Statements of Accounting Policy.

THE MANCOS CORPORATION

STATEMENT OF ACCUMULATED DEFICIT
(Unaudited)

For the Years Ended December 31, 1977, 1976, and 1975

	1977	1976	1975
ACCUMULATED DEFICIT — January 1.....	\$(134,807)	\$(136,399)	\$(135,879)
Net income (loss) for the year ended December 31.....	(619)	1,592	(520)
ACCUMULATED DEFICIT — December 31.....	<u>\$135,426</u>	<u>\$(134,807)</u>	<u>\$(136,399)</u>

These Unaudited Financial Statements Should Be Read Only In
Connection With The Accountants' Report, Footnotes And
Statements of Accounting Policy.

THE MANCOS CORPORATION
STATEMENT OF CHANGES IN FINANCIAL POSITION
(Unaudited)

For the Years Ended December 31, 1977, 1976, and 1975

	<u>1977</u>	<u>1976</u>	<u>1975</u>
FINANCIAL RESOURCES WERE PROVIDED BY:			
Net income for the period.....	\$ -0-	\$ 1,592	\$ -0-
FINANCIAL RESOURCES WERE USED FOR:			
Net loss for the period.....	(619)	-0-	(520)
Less expenses not requiring outlay of current working capital — amortization.....	-0-	-0-	38
INCREASE (DECREASE) IN WORKING CAPITAL....	<u>\$ (619)</u>	<u>\$ 1,592</u>	<u>\$ (482)</u>
ANALYSIS OF INCREASE (DECREASE) IN WORKING CAPITAL			
Increase (decrease) in current assets:			
Cash in bank.....	\$(1,830)	\$ 534	\$ 837
Interest receivable.....	1,054	(700)	513
	<u>(776)</u>	<u>(166)</u>	<u>1,350</u>
(Increase) decrease in current liabilities:			
Accrued payroll.....	(10)	2	(24)
Accrued payroll tax.....	21	(41)	100
Accrued property tax.....	146	-0-	(111)
Deferred interest income.....	-0-	1,797	(1,797)
	<u>157</u>	<u>1,758</u>	<u>(1,832)</u>
INCREASE (DECREASE) IN WORKING CAPITAL....	<u>\$ (619)</u>	<u>\$ 1,592</u>	<u>\$ (482)</u>

These Unaudited Financial Statements Should Be Read Only In
Connection With The Accountants' Report, Footnotes And
Statements of Accounting Policy.

THE MANCOS CORPORATION

NOTES TO UNAUDITED FINANCIAL STATEMENTS

December 31, 1977, 1976, and 1975

Note 1 Significant Accounting Policies

1A — Land, buildings and equipment are recorded at cost. Depreciation on the equipment and buildings has been temporarily suspended since they are not presently being utilized. It is felt by management this non-usage substantially halts depreciation.

1B — Development and exploration costs are recorded at cost and are not being amortized until such time as production starts and the benefits of these expenditures accrue to the Company. If production is never resumed, development and exploration cost would have minimal value.

1C — Reorganization costs are recorded at cost and are not being amortized. They consist of legal fees related to the pooling of interest reorganization of U.S. No Joint Concrete Pipe Company, First National Oil and Minerals Company, Red Arrow Gold Corporation and The Mancos Corporation on July 10, 1970.

Note 2 Note Receivable — Stockholder

This note is due November 29, 1978, bears interest at 7% per annum and is unsecured.

Note 3 Note Receivable — Silver Bell Industries, Inc.

This 7% uncollateralized note; dated September 6, 1973, and originally due September 6, 1974; extended at various times, more recently providing that the note is payable in its entirety plus interest on May 31, 1979.

Note 4 Capital Stock

There are 5,000,000 shares of \$.01 par value shares of common stock authorized. There were 1,765,219 shares issued and outstanding at December 31, 1977.

Note 5 Income(Loss) Per Share

Income (loss) per share was computed using the weighted average number of shares outstanding during the year.

Note 6 Supplemental Information

Unaudited information relative to cash receipts and disbursements for the period January 1, 1978 to June 30, 1978.

Cash Receipts:

Interest.....	\$4,254
Leases.....	106
TOTAL CASH RECEIPTS	4,360

Cash Disbursements:

Wages and payroll taxes.....	2,245
Property taxes.....	809
Accounting.....	195
Colorado corporation reports.....	90
TOTAL CASH DISBURSEMENTS	3,339
CASH RECEIPTS OVER CASH DISBURSEMENTS FOR THE PERIOD	\$1,021

**PLAN OF LIQUIDATION, DISTRIBUTION OF SHARES
AND DISSOLUTION OF
SILVER BELL INDUSTRIES, INC.**

The following Plan of Liquidation, Distribution of Shares, and Dissolution of Silver Bell Industries, Inc. (the "Company"), hereinafter called the "Plan", shall be effective only upon the adoption and approval of the Plan at a meeting of shareholders of the Company by the affirmative vote of the holders of record of two-thirds (2/3rds) of the outstanding shares of the Company. The day of such adoption and approval by the shareholders is hereinafter called the "Effective Date."

1. As promptly as practicable after the Effective Date, but in no event later than one year after the Effective Date, the Company shall be dissolved in accordance with the laws of the State of Colorado.

2. After the Effective Date, the Company will cease the active conduct of its business and will wind up its affairs within the 12-month period beginning on the Effective Date, liquidate and distribute all of its assets in complete liquidation, less any assets retained or distributed to meet claims and liabilities.

3. The officers and directors of the Company are authorized from time to time to negotiate and to consummate sales of all or any portion or portions of the properties of the Company on such terms and conditions as they in their discretion shall deem beneficial to the Company, including the assumption by the purchaser or purchasers of any or all liabilities of the Company.

4. All known or ascertainable liabilities of the Company shall be promptly paid or provided for. There may also be set aside and retained, in cash, securities, or other assets, a reserve fund in an amount estimated by the directors of the Company to be necessary for the payment of estimated expenses, taxes, and contingent liabilities (including expenses of liquidation, termination of existence, distribution of assets, and dissolution). If the directors in their discretion deem it advisable to distribute a reserve for the aforesaid purposes to a trustee in lieu of retaining the same, such trustee arrangement shall be deemed to have been approved by all of the shareholders upon the approval of this Plan by the requisite two-thirds (2/3rds) vote.

5. Prior to the expiration of the 12-month period beginning on the Effective Date, all of the assets of the Company which, in the opinion of its directors, need no longer be retained or distributed to a trustee as a reserve fund or to meet claims or liabilities shall be distributed to the holders of the Company's shares.

6. The foregoing distributions to complete the liquidation shall be in exchange solely for, and in complete redemption and cancellation of, and in payment for all of the outstanding shares of the Company. The shareholders shall surrender their certificates as a condition to any distribution.

7. The Board of Directors will fix a record date for the determination of shareholders eligible for any distribution under this Plan.

**PLAN OF LIQUIDATION, DISTRIBUTION OF SHARES
AND DISSOLUTION OF
THE MANCOS CORPORATION**

The following Plan of Liquidation, Distribution of Shares, and Dissolution of The Mancos Corporation (the "Company"), hereinafter called the "Plan", shall be effective only upon the adoption and approval of the Plan at a meeting of shareholders of the Company by the affirmative vote of the holders of record of two-thirds (2/3rds) of the outstanding shares of the Company. The day of such adoption and approval by the shareholders is hereinafter called the "Effective Date".

1. As promptly as practicable after the Effective Date, but in no event later than one year after the Effective Date, the Company shall be dissolved in accordance with the laws of the State of Colorado.

2. After the Effective Date, the Company will cease the active conduct of its business and will wind up its affairs within the 12-month period beginning on the Effective Date, liquidate and distribute all of its assets in complete liquidation, less any assets retained or distributed to meet claims and liabilities.

3. The officers and directors of the Company are authorized from time to time to negotiate and to consummate sales of all or any portion or portions of the properties of the Company on such terms and conditions as they in their discretion shall deem beneficial to the Company, including the assumption by the purchaser or purchasers of any or all liabilities of the Company.

4. All known or ascertainable liabilities of the Company shall be promptly paid or provided for. There may also be set aside and retained, in cash, securities, or other assets, a reserve fund in an amount estimated by the directors of the Company to be necessary for the payment of estimated expenses, taxes, and contingent liabilities (including expenses of liquidation, termination of existence, distribution of assets, and dissolution). If the directors in their discretion deem it advisable to distribute a reserve for the aforesaid purposes to a trustee in lieu of retaining the same, such trustee arrangement shall be deemed to have been approved by all of the shareholders upon the approval of this Plan by the requisite two-thirds (2/3rds) vote.

5. Prior to the expiration of the 12-month period beginning on the Effective Date, all of the assets of the Company which, in the opinion of its directors, need no longer be retained or distributed to a trustee as a reserve fund or to meet claims or liabilities shall be distributed to the holders of the Company's shares.

6. The foregoing distributions to complete the liquidation shall be in exchange solely for, and in complete redemption and cancellation of, and in payment for all of the outstanding shares of the Company. The shareholders shall surrender their certificates as a condition to any distribution.

7. The Board of Directors will fix a record date for the determination of shareholders eligible for any distribution under this Plan.

AGREEMENT AND PLAN OF REORGANIZATION

This Agreement and Plan of Reorganization is entered into as of the 15th day of May, 1978, among SILVER BELL INDUSTRIES, INC. (Silver Bell), a Colorado corporation; UNION OIL COMPANY OF CALIFORNIA (Union), a California corporation; and MINERALS EXPLORATION COMPANY (Minerals), a California corporation and wholly-owned subsidiary of Union.

WITNESSETH:

WHEREAS, Silver Bell is a development stage corporation engaged primarily in the acquisition of interests in and to mineral properties and conducts exploration thereon directly or through partners, lessees, purchasers, and optionees for many types of minerals; and

WHEREAS, the Boards of Directors of Silver Bell, Union and Minerals, respectively, deem it advisable in their common best interest and in the best interest of their respective shareholders that Minerals acquire substantially all of the assets of Silver Bell pursuant to this Agreement and applicable provisions of law and as a plan of reorganization within the purview of Section 368(a)(1)(C) of the Internal Revenue Code of 1954 as amended and have approved and adopted this Agreement and Plan of Reorganization; and

WHEREAS, contemporaneously with the execution and delivery of this Agreement, the Parties hereto are effecting the reorganization as hereinafter set forth pursuant to which Minerals is acquiring substantially all of the assets of Silver Bell for:

- A. 418,095 shares of Union's common stock, being the only Class of stock Union has outstanding; and
- B. The assumption by Minerals of certain liabilities and obligations of Silver Bell; and

WHEREAS, it is contemplated that the shares of Union's common stock issued to Silver Bell as consideration for the transfer of substantially all of Silver Bell's Assets to Minerals (except to the extent that sales of such shares may be made to provide cash to pay persons entitled to fractional shares, to pay expenses of Silver Bell and to make payments to any dissenting Silver Bell shareholders) will then be distributed to the shareholders of Silver Bell in complete liquidation of Silver Bell according to their respective interests and that Silver Bell will then be dissolved pursuant to applicable state laws.

AGREEMENT

NOW, THEREFORE, in consideration of the premises and subject to the terms and conditions hereinafter set forth, Silver Bell, Union and Minerals hereby each agree as follows:

ARTICLE I**SALE OF ASSETS BY SILVER BELL**

1.01 **The Sale.** Subject to the terms and conditions of this Agreement, Minerals shall purchase and accept delivery from Silver Bell and Silver Bell shall sell and deliver to Minerals the Assets (as hereinafter defined).

1.02 **The Assets.** The Assets are all properties and rights of every name and description, real, personal, mixed, tangible and intangible, wherever situated or owned by Silver Bell at the time of closing hereunder, including but not by way of limitation those certain properties substantially as described in the schedules attached to and by reference made a part of instrument styled Assignment and Con-

veyance of Mineral Properties attached hereto as Exhibit 1, and by this reference made a part hereof for all purposes; provided, however, the term "The Assets" shall not include cash on hand, in banks (including certificates of deposit) and on deposit with third parties as of the date of closing.

ARTICLE II

THE CONSIDERATION

2.01 **Consideration.** The consideration for the Assets consists of:

A. Four hundred eighteen thousand ninety-five (418,095) shares of Union's common stock duly registered, as hereinafter provided, to be issued by Union to Silver Bell at the time of closing.

B. The assumption by Minerals of certain specified obligations of Silver Bell.

2.02 **Minerals Not A Successor Corporation.** When and if the transaction contemplated by this Agreement is consummated, Minerals shall have only acquired the Assets of Silver Bell and shall not be considered as a successor corporation to Silver Bell; provided, however, Minerals shall as of the time of closing execute and deliver to Silver Bell an instrument whereby Minerals assumes all of Silver Bell's obligations under all of those certain agreements listed in Schedule of Obligations, attached hereto as Exhibit 2 and by this reference made a part hereof for all purposes. Such instrument of assumption shall provide (subject to such exceptions as are set forth herein and shall be set forth in such instrument) that Minerals shall assume and indemnify Silver Bell against and hold it harmless from any and all obligations in connection with the Assets arising subsequent to the time of closing. Silver Bell shall remain liable for all obligations not listed in Exhibit 2 or otherwise assumed by Minerals including but not limited to obligations to shareholders, including dissenting shareholders.

ARTICLE III

THE CLOSING

3.01 **Time and Place.** The Closing with respect to the transactions contemplated by this Agreement shall be held on August 31, 1978, at 10:00 A.M. Pacific Daylight Savings Time, at the offices of Union Oil Company of California, 461 South Boylston Street, Los Angeles, California 90017, or at such earlier or later time or at such other place as may be agreed upon by the Parties, such time being referred to herein as "Time of Closing."

3.02 **Instruments of Conveyance.** At the Time of Closing, Silver Bell shall assign, transfer and deliver to Minerals the Assets by executing and delivering the Assignment and Conveyance of Mineral Properties (Exhibit 1) and all other instruments, documents of title conveyances, bills of sale, assignments and other instruments necessary or desirable to convey, transfer and assign the Assets to Minerals.

3.03 **Issuance of Union's Common Stock.** At the time of closing, Union shall issue the shares of common stock provided for in Section 2.01 to Silver Bell.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF SILVER BELL

Silver Bell represents, warrants and agrees as follows:

4.01 **Corporate Existence.** Silver Bell is a corporation organized and existing under the laws of the State of Colorado, is authorized to hold interests and rights to mineral properties and is authorized to hold property and conduct business in all of the states in which the Assets are located.

4.02 **Corporate Powers.** Silver Bell has the legal power and right to enter into this Agreement and the consummation of the transactions contemplated hereby will not result in the breach of any term or condition or constitute a default under any agreement or other instrument relating to or affecting the Assets to which Silver Bell is a party or by which it is bound subject only to the obtaining of the consents, waivers and releases listed in the Schedule of Consents attached hereto as Exhibit 3 and by this reference made a part hereof for all purposes.

4.03 **Assets Free of Encumbrances.** The Assets are free and clear of liens, charges and encumbrances except:

A. Minor imperfections in title which do not materially affect the operation or materially detract from the value of the Assets;

B. Encumbrances arising from the terms and provisions of the various agreements relating to the properties, which agreements are described in the schedules attached to the Assignment and Conveyance of Mineral Properties (Exhibit 1).

4.04 **No Subsidiaries.** Silver Bell has no subsidiaries.

4.05 **No Defaults.** Silver Bell has not received any notice of default and does not have knowledge of any circumstances of any person intending to declare a default of any material nature under any agreements or other instruments relating to or affecting the Assets.

4.06 **No Finders' Fees.** Silver Bell has not incurred any obligation (contingent or otherwise) for brokers' fees or finders' fees in connection with the transactions contemplated by this Agreement.

4.07 **No Litigation.** There are no pending actions, suits or other proceedings affecting all or any part of the Assets.

4.08 **No Rights to Others.** Silver Bell has not granted to any person other than Union and Minerals any rights (legal or equitable, direct or indirect, vested or contingent) with respect to the Assets which shall be operative at the Time of Closing and which has not been disclosed in the schedules attached to the Assignment and Conveyance of Mineral Properties (Exhibit 1).

4.09 **Correctness of Exhibits.** Each of the Exhibits referred to herein delivered by Silver Bell to Union pursuant to this Agreement is substantially complete and the information reported therein is correct as of the date of this Agreement.

4.10 **Compliance with Securities Laws.** When the Registration Statement referred to in Article VI or any post-effective amendments thereto shall become effective, and when the Proxy Statement referred to in Article VI or any amendment thereto shall be mailed to holders of securities of Silver Bell, and at all times subsequent to such effectiveness or mailing up to and including the Time of Closing, such Registration Statement and such Proxy Statement and all amendments or supplements thereto, with respect to all information set forth therein relating to Silver Bell and in respect of this Agreement and Plan of Reorganization will comply in all material respects with the provisions of the Securities Act of 1933 as amended (the "Securities Act"), and the Securities Exchange Act of 1934 as amended (the "Exchange Act"), and the rules and regulations of the Securities and Exchange Commission (the "SEC") thereunder and will not contain any untrue statements of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements contained therein not misleading.

4.11 **Silver Bell's 10-K.** The information included in Silver Bell's Annual Report on Form 10-K for its fiscal year ended March 31, 1977, (Silver Bell's 10-K) is true and correct in all material respects and does not contain any material untrue statements of material fact or omit to state any material fact necessary to make the statements made therein not misleading.

ARTICLE V

REPRESENTATIONS AND WARRANTIES BY UNION

Union represents, warrants and agrees as follows:

5.01 **Organization, etc.** Union and each subsidiary named in Union's Annual Report on Form 10-K for the fiscal year ended December 31, 1977 (the "Union 10-K") (except for Collier Carbon and Chemical Corporation which has been merged into Union) is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation, and Minerals is a corporation duly organized, validly existing and in good standing under the laws of the State of California.

5.02 **Capital Stock of Union.** As of March 31, 1978, the authorized capital stock of Union consisted of 65,000,000 shares of common stock, par value \$8 $\frac{1}{2}$ per share, of which approximately 42,299,000 shares were issued and outstanding. As of the date of this Agreement, there are no outstanding options, warrants or other rights to subscribe for or purchase from Union or any of its subsidiaries any capital stock of Union or securities convertible into or exchangeable for capital stock of Union except upon conversion of the options and other securities listed in Exhibit 4 attached hereto and by this reference made a part hereof for all purposes and except that as of March 31, 1978, less than 650,000 shares of Union's capital stock were reserved for issuance in connection with the plans listed in Exhibit 4. Such issued shares of Union are and any shares reserved for issuance pursuant to such plans or upon such exercise or conversion prior to the Time of Closing of this Agreement will be duly authorized, validly issued and outstanding, and fully paid and nonassessable.

5.03 Union's SEC Reports.

A. Union has previously furnished Silver Bell a true and complete copy of (i) the Union 10-K, and (ii) Union's Quarterly Report on Form 10-Q for the quarter ended March 31, 1978 (the "Union 10-Q"). The financial statements contained in the Union 10-K and the consolidated balance sheet and the statement of consolidated earnings contained in the Union 10-Q have been prepared in conformity with generally accepted accounting principles, except for information omitted in accordance with the instructions to Form 10-Q, and fairly present the financial position of Union and the results of operations of Union on a basis consistent with prior periods. The consolidated balance sheets of Union and its subsidiaries as at December 31, 1977 and 1976, contained in the Union 10-K fairly present the consolidated financial condition of Union and its subsidiaries as at the dates thereof; the related statements of consolidated earnings of Union and its subsidiaries contained therein fairly present the results of the operations thereof for the fiscal years then ended; and the consolidated summary of operations of Union and its subsidiaries contained therein fairly summarizes the operations thereof for the five fiscal years ended December 31, 1977. The consolidated balance sheets of Union and its subsidiaries as at March 31, 1978 and 1977 contained in the Union 10-Q fairly present the financial position of Union and its subsidiaries at March 31, 1978 and 1977 and the related statements of consolidated earnings of Union and its subsidiaries for the three month periods ending March 31, 1978 and 1977 contained therein fairly present the results of the operations thereof for the periods indicated, subject in each case to normal year end audit adjustments. For the purposes of this Agreement, all financial statements referred to in this Section 5.03 shall be deemed to include any notes to such financial statements.

B. Neither Union nor any of its subsidiaries or affiliates has any liabilities or obligations, either accrued, contingent or otherwise, which, individually or in the aggregate, are material to Union and its consolidated subsidiaries considered as a whole, and which have not been:

(i) reflected in the consolidated balance sheet of Union and its subsidiaries as at December 31, 1977; or

(ii) specifically described in any schedule furnished to Silver Bell in connection herewith; or

(iii) incurred in the ordinary course of business.

Union's obligations with respect to pension liabilities are disclosed in the Union 10-K.

C. Except as set forth in Exhibit 5 attached hereto and by this reference made a part hereof for all purposes, or as described in the Union 10-K or the Union 10-Q, there are no claims against or liabilities or obligations of, or any reasonable legal basis known to Union for any claims against or liabilities or obligations of Union or any of its subsidiaries which, individually or in the aggregate, might result in or cause any material adverse change in the consolidated financial condition or results of operations of Union and its subsidiaries.

D. Except as set forth in Exhibit 6 attached hereto and by this reference made a part hereof for all purposes or in the Union 10-K or the Union 10-Q, there has not been, occurred or arisen since December 31, 1977, whether or not in the ordinary course of business:

(i) any material adverse change in the financial condition or results of operations of Union and its subsidiaries considered as a whole, from that shown on the consolidated financial statements for the year ended December 31, 1977; or

(ii) any damage or destruction in the nature of a casualty loss, whether covered by insurance or not, materially and adversely affecting any property or business of Union or any of its subsidiaries which in material to the consolidated financial condition or results of operations of Union and its subsidiaries; or

(iii) any actual or, to the knowledge of Union, any threatened strike or other labor trouble or dispute which materially and adversely affects, or which insofar as Union knows might materially and adversely affect, the business or prospects of Union and its subsidiaries considered as a whole; or

(iv) any other event, condition or state of facts of any character (but not including general or political conditions affecting the petroleum industry or industrial companies in the United States) which materially and adversely affects, or threatens to materially and adversely affect, the results of operations or business or financial condition or prospects of Union and its subsidiaries considered as a whole.

Union and its subsidiaries have not engaged in any transaction material to Union and such subsidiaries, taken as a whole, not in the ordinary course of its business since December 31, 1977, except as set forth in such Exhibit 6.

5.04 Status of Union Common Stock. The shares of Union common stock to be issued to Silver Bell pursuant to this Agreement, when so issued, will be duly and validly authorized and issued, fully paid and nonassessable. The number of shares of Union common stock to be issued to Silver Bell in accordance with numbered Section 2.01 shall be adjusted in the event that subsequent to the date of this Agreement but prior to the Time of Closing the outstanding shares of Union common stock shall have been changed into or exchanged for a different number or kind of share or securities through reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split or other like changes in Union capitalization, then an appropriate and proportionate adjustment shall be made in the number and kind of shares or securities to be delivered to Silver Bell pursuant to this Agreement, it being understood that in no event shall other than Union common stock as then constituted be issued pursuant to this Agreement.

5.05 No Breach of Statute or Contract; Governmental Authorizations; Required Consents. Neither the execution and delivery of this Agreement by Union and Minerals, nor compliance with the terms and provisions of this Agreement by Union and Minerals will conflict with or result in a breach of any of the terms, conditions or provisions of the Certificate of Incorporation or By-laws of Union or any of its subsidiaries or any judgment, order, injunction, decree, regulation or ruling of any court or govern-

mental authority, domestic or foreign, to which Union or any of its subsidiaries is subject or of any agreement, contract or commitment to which Union or any subsidiary is a party and which is material to the financial condition or the results of operations of Union and its subsidiaries considered as a whole, or constitute a material default thereunder, or give to any others any interest or rights, including rights of termination, cancellation or acceleration, in or with respect to any of such agreements, contracts or commitments, or otherwise require the consent or approval of any person.

5.06 No Litigation or Adverse Events. There is no suit, action, legal or administrative, arbitration or other proceeding or governmental investigation, pending or as to which Union or any of its subsidiaries has received in writing any claim or assertion, which might individually or in the aggregate, materially and adversely affect the financial condition or results of operations of Union and its subsidiaries considered as a whole, except as set forth in the Union 10-K or in Exhibit 7 attached hereto and by this reference made a part hereof for all purposes.

5.07 Authorization of Agreement. The execution and delivery and, subject to requisite approval by Union, the performance of this Agreement have been duly and validly authorized and approved by the Boards of Directors of Union and Minerals and Union and Minerals have taken, or will use their best efforts to take prior to the Time of Closing, all action required by law, their respective Certificates of Incorporation and By-laws and all other action required to authorize the execution, delivery and performance of this Agreement.

5.08 Registration Statement and Proxy Statement. When the Registration Statement referred to in Article VI or any post-effective amendment thereto shall become effective, and when the Proxy Statement included therein is mailed to Silver Bell shareholders for the purpose of securing shareholder approval for this Agreement or any amendment or supplement thereto, and at all times subsequent to such effectiveness or mailing up to and including the Time of Closing, such Registration Statement and such Proxy Statement and all amendments or supplements thereto, with respect to all information set forth therein relating to Union and Minerals and in respect to all information set forth therein relating to this Agreement, (i) will comply in all material respects with the provisions of the Securities Act and Exchange Act, respectively, and the rules and regulations of the SEC thereunder and (ii) will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements contained therein not misleading.

5.09 Brokers' or Finders' Fees. Union has incurred no obligation (contingent or otherwise) for brokers' fees or finders' fees in connection with the transactions contemplated by this Agreement.

5.10 Report on Form 10-K. The information included in the Union 10-K previously delivered by Union to Silver Bell is true and correct in all material respects.

5.11 Correctness of Exhibits. Each of the Exhibits referred to herein delivered by Union to Silver Bell, pursuant to this Agreement, is substantially complete and the information reported therein is correct as of the date of this Agreement.

ARTICLE VI

TRANSACTIONS PRIOR TO CLOSING

6.01 Investigations of Business of Silver Bell and Union. Between the date of this Agreement and the Time of Closing, Union, Silver Bell and Minerals each agree to give the other full access to its premises, books and records for the purpose of investigating its business and the conduct thereof.

6.02 Registration Statement and Proxy Statement. Prior to the Time of Closing, Union shall prepare and file with the SEC a Registration Statement on Form S-14 under the Securities Act for the purpose of registering the shares of Union common stock to be exchanged for the Assets and shall duly comply with all applicable state securities or "Blue Sky Laws." As soon as practicable after the Registration Statement becomes effective, Silver Bell shall mail the Proxy Statement included in said Registration Statement to its shareholders and shall submit this Agreement to its shareholders for approval as provided by law and its Articles of Incorporation at a meeting which shall be held as soon as practicable after the effective date of the Registration Statement.

6.03 Listing of Union Common Stock. Union has obtained, or shall use reasonable efforts to obtain prior to the Time of Closing approval for the listing on the New York, Midwest and Pacific Stock Exchanges upon official notice of issuance of the shares of Union common stock to be exchanged for the Assets.

6.04 Information for Registration Statement and Proxy Statement. Silver Bell and Union shall each furnish to the other such data and information as the other may reasonably request for the purpose of including such data and information in the Proxy Statement or Registration Statement.

ARTICLE VII

CONDITIONS PRECEDENT TO THE CONSUMMATION OF THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT

7.01 Conditions Applicable to All Parties. The obligations of Union, Silver Bell and Minerals are conditioned upon:

At the Time of Closing no suit, action, or proceeding being pending or threatened before any court or other governmental agency of the Federal or any state government in which it is sought to restrain or prohibit the consummation of the transactions contemplated hereby; no such other suit, action or proceeding being pending or threatened or no liability or claim have been asserted which would be considered by any Party to be materially significant.

B. The holders of at least two-thirds ($\frac{2}{3}$) of the outstanding stock of Silver Bell shall have approved this Agreement in accordance with the laws of the State of Colorado, Silver Bell's Articles of Incorporation, and By-Laws.

C. The Registration Statement shall be effective under the Securities Act and not subject to any "stop order" or threatened stop order.

D. All legal proceedings in connection with the transactions contemplated by this Agreement being satisfactory to each Party's counsel and each Party's counsel having been furnished with such certificates or other evidence of compliance with the conditions as such counsel may reasonably request and Silver Bell having secured releases, waivers and consents from all of the Parties listed in the Schedule of Consents (Exhibit 3).

7.02 Additional Conditions to Silver Bell's Obligation. The obligations of Silver Bell shall be conditioned upon the satisfactory performance or waiver of the following conditions:

A. The performance by Union and Minerals of all of their obligations and covenants hereunder.

B. The substantial accuracy at the Time of Closing of all of the representations made by Union herein.

C. Silver Bell shall have received from George C. Bond, Esq., General Counsel of Union, or Sam A. Snyder, Esq., Assistant General Counsel of Union, an opinion dated immediately prior to the Time of Closing in form and substance satisfactory to Silver Bell to the effect that:

(i) Union and each of its subsidiaries, including Minerals, is a corporation duly organized and existing and in good standing under the laws of the jurisdiction of its incorporation;

(ii) Union and each of its subsidiaries, including Minerals, has the corporate power to carry on its business as now being conducted;

(iii) The authorized capital stock of Union consists of 65,000,000 shares of common stock par value Eight and One-Third Dollars (\$8 $\frac{1}{3}$) per share, and stating the number of shares of authorized capital stock of Union which have been issued, that such issued shares have been authorized and are validly issued and outstanding, and are all fully paid and nonassessable, and stating the number of shares which at that date were held for any specific purpose;

(iv) The shares of Union common stock to be issued pursuant to this Agreement at the Time of Closing have been duly authorized and, upon issuance, will be duly and validly issued and will be fully paid and nonassessable;

(v) This Agreement has been duly executed and delivered by Union and Minerals and is a valid and binding obligation upon Union and Minerals and all corporate action by Union and Minerals required under this Agreement has been taken;

(vi) Neither the execution and delivery by Union and Minerals of this Agreement, nor compliance with the terms and provisions hereof will, to the best of the knowledge of such counsel, conflict with or result in a breach of any term, condition or provision of any judgment, order, injunction, decree, regulation or ruling of any court or governmental authority, domestic or foreign, to which Union or Minerals is subject or any material agreement, contract or commitment to which Union or Minerals is a party or by which either it is bound or constitutes a material default thereunder;

(vii) That all consents and approvals required by law, state or federal, and other actions required by law, rule or regulation have been duly taken or obtained in order to permit the consummation of the transactions contemplated by this Agreement.

It is understood that such counsel, in rendering such opinion, is entitled to rely upon the opinions of other counsel for matters relating to local law, including but not by way of limitation, state securities or Blue Sky laws.

D. That owners of not more than an aggregate of five percent (5%) of Silver Bell's outstanding stock have exercised dissenters' rights to receive the fair market value for their stock in accordance with Colorado law.

7.03 Additional Conditions to the Obligations of Union and Minerals. The obligations of Union and Minerals being conditioned upon the satisfactory performance or waiver of the following conditions:

A. The performance by Silver Bell of all of its obligations and covenants hereunder.

B. At the Time of Closing, the Assets shall be in the same conditions as they were on April 1, 1978, except for ordinary use and changes occurring in the ordinary course of business between that date and the Time of Closing.

C. Silver Bell having delivered to Union and Minerals such evidence of title to the Assets, including opinions of counsel as it may have in its files and such other title information as Union may reasonably request.

D. Union's counsel having examined title to the Assets in such detail as such counsel deems reasonably appropriate for the examination of mining title and such counsel being reasonably satisfied that subject to minor imperfections as are usual in the case of mining properties that Silver Bell has title to the Assets together with the right to transfer and assign the Assets to Union and that Silver Bell has not created any liens, charges, encumbrances or other burdens on the Assets except those described in the schedule attached to the Assignment and Conveyance of Mineral Property.

E. Union having determined to its satisfaction that all of the representations made herein are substantially accurate in all material respects.

ARTICLE VIII FRUSTRATION OF AGREEMENT

8.01 **Termination Prior to Closing.** In the event the transactions contemplated by this Agreement are not consummated on or before August 31, 1978 (unless such date is extended by mutual agreement of the parties), because of the non-occurrence of the conditions precedent specified in Article VII or the waiver of the condition of the Party having the right to waive such condition, then this Agreement shall terminate and, except as provided in this Article VIII, no Party shall have any further right or obligation hereunder.

8.02 **Information to be Confidential.** In the event of frustration and termination of this Agreement, all information obtained from another Party pursuant to the terms hereof shall be returned to the Party furnishing such information and all Parties agree not to disclose to any third party any confidential information obtained hereunder.

8.03 **Costs in Event of Frustration.** Each Party shall be responsible for and shall pay any and all costs incurred by it in connection with the transactions contemplated by this Agreement and shall indemnify each other Party against any and all claims with respect thereto.

ARTICLE IX SURVIVAL OF REPRESENTATIONS AND WARRANTIES AND FURTHER ASSURANCES

9.01 **Survival of Representations and Warranties.** The representations and warranties made by the Parties herein and in the Assignment and Conveyance of Mineral Properties and the Assumption of Obligation shall survive the Time of Closing.

9.02 **Further Assurances.** At and after the Time of Closing at any time and from time to time as long as it is authorized by law to do so, upon the request of Minerals, and at the expense of Minerals, Silver Bell shall execute and deliver to Minerals such further instruments of conveyance, assignment and transfer and take such further action as Minerals may request to effectively convey, assign, transfer and deliver the Assets pursuant to this Agreement.

ARTICLE X MISCELLANEOUS

10.01 **Silver Bell Affiliates.** "Silver Bell Affiliates" means each person (other than Silver Bell) who, should such person resell Union common stock acquired by him as a distribution in liquidation from Silver Bell, may be deemed to be subject to the requirements of Paragraphs (c) and (d) of

Rule 145 under the Securities Act. Silver Bell, in connection with its distribution of Union common stock to its shareholders, shall require such Silver Bell Affiliates to sign and deliver to Union a letter corresponding to the text set forth in Exhibit 8, attach hereto and by this reference made a part hereof for all purposes. Union, on direction from Silver Bell, shall then imprint appropriate legends on the stock certificates representing the shares to be distributed to such affiliates, imposing restrictions on the rights of resale of such shares to the extent such restrictions continue to exist at the time the shares are distributed by Silver to Silver Bell Affiliates.

10.02 Allocation of Costs. The costs incurred in preparing for and consummating the transaction contemplated hereby shall be allocated as follows:

A. To Silver Bell:

- (i) The cost of obtaining consents and waivers.
- (ii) The cost of curing title to the Assets, if any.
- (iii) All of its own counsel and accounting fees and the cost of securing shareholder approval.

B. To Union:

- (i) The cost of preparing the Registration Statement.
- (ii) All counsel and accounting fees incurred by Union, including those relating to title examination.
- (iii) The cost of recording the documents transferring the Assets.
- (iv) All stock exchange application and listing fees associated with the common stock to be issued to Silver Bell hereunder.

C. To Be Shared Equally by Union and Silver Bell: All costs incurred in the preparation and printing of this Agreement and other documents required to be printed in order to consummate the contemplated transactions.

10.03 Applicable Law. This Agreement and the legal relations between the Parties shall be governed by and construed in accordance with the law and jurisprudence of the State of California, excluding that body of law referred to as conflicts of law.

10.04 Notices. Any notices or communications required or permitted hereunder shall be sufficiently given if delivered or mailed by certified mail, postage prepaid, as follows:

To Union:

Union Oil Company of California
P.O. Box 7600
Los Angeles, California 90051
Attention: Claude S. Brinegar
Vice President

To Minerals:

Minerals Exploration Company
P.O. Box 54945
Los Angeles, California 90054
Attention: E. H. Eakland, Jr.
President

To Silver Bell:

Silver Bell Industries, Inc.
158 Fillmore Street
Denver, Colorado 80206

Attention: Eugene H. Sanders
President

With Copies to: Alec J. Keller, Esq.
Keller, McSwain, Wing & Maxfield
2570 First of Denver Plaza
633 Seventeenth Street
Denver, Colorado 80202

Or at such addresses as hereinafter may be furnished in writing by each Party hereto to the other Party.

10.05 Schedule of Exhibits. The following exhibits are attached and by reference made a part of this Agreement:

Exhibit 1 — Assignment and Conveyance of Mineral Properties

Exhibit 2 — Schedule of Obligations

Exhibit 3 — Schedule of Consents

Exhibit 4 — List of Union's Stock Plans

Exhibit 5 — List of Claims against Union

Exhibit 6 — Schedule of Material Changes

Exhibit 7 — Schedule of Material Litigation

Exhibit 8 — Rule 145 Agreement

Such exhibits may be amended and corrected by the mutual agreement of the Parties.

10.06 Headings. The descriptive headings of the several Articles, Sections and Paragraphs of this Agreement are inserted for convenience only and do not constitute a part of this Agreement.

10.07 Amendments. Any and all amendments to this Agreement must be in writing and executed by all of the parties hereto.

10.08 Counterparts. This Agreement may be executed in several counterparts, each of which shall constitute one and the same Agreement.

IN WITNESS WHEREOF, the Parties have caused this instrument to be executed on the day and year above written.

UNION OIL COMPANY OF CALIFORNIA

Attest:

By CLAUDE S. BRINEGAR

R. P. VAN ZANDT

Assistant Secretary

SILVER BELL INDUSTRIES, INC.

Attest:

By EUGENE H. SANDERS
President

WILLIAM R. SOMERVILLE

MINERALS EXPLORATION COMPANY

Attest:

By EDWARD H. EAKLAND, JR.

R. P. VAN ZANDT

Union Oil Company of California
Union Oil Center, Los Angeles, California 90017



Claude S. Brinegar
Senior Vice President

October 10, 1978

Silver Bell Industries, Inc.
158 Fillmore Street
Denver, Colorado 80206

RE: Amendment to Agreement and
Plan of Reorganization
dated May 15, 1978

Gentlemen:

This letter, when accepted by Silver Bell Industries, Inc. ("Silver Bell"), shall constitute an amendment to the Agreement and Plan of Reorganization dated May 15, 1978 between Union Oil Company of California, Minerals Exploration Company and Silver Bell, whereby the date of August 31, 1978, appearing in Article III, Section 3.01 and in Article VIII, Section 8.01 of said Agreement is deleted and the date of December 15, 1978 is hereby substituted.

If the foregoing meets with your approval, please sign the duplicate of this letter and return it to the undersigned.

Very truly yours,

UNION OIL COMPANY OF CALIFORNIA

CLAUDE S. BRINEGAR
Claude S. Brinegar
Senior Vice President

Agreed to this 12th day of October, 1978

SILVER BELL INDUSTRIES, INC.

By EUGENE H. SANDERS
Eugene H. Sanders
President

MINERALS EXPLORATION COMPANY

CLAUDE S. BRINEGAR
Claude S. Brinegar
Vice President

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UNO/SB 2333

AGREEMENT AND PLAN OF REORGANIZATION

This Agreement and Plan of Reorganization is entered into as of the 21st day of June, 1978, among THE MANCOS CORPORATION (Mancos), a Colorado corporation; UNION OIL COMPANY OF CALIFORNIA (Union), a California corporation; and MINERALS EXPLORATION COMPANY (Minerals), a California corporation and wholly-owned subsidiary of Union.

WITNESSETH:

WHEREAS, Mancos owns interests in and to mineral properties in Montezuma County, Colorado; and

WHEREAS, the Boards of Directors of Mancos, Union and Minerals, respectively, deem it advisable in their common best interest and in the best interest of their respective shareholders that Minerals acquire substantially all of the assets of Mancos pursuant to this Agreement and applicable provisions of law and as a plan of reorganization within the purview of Section 368(a)(1)(C) of the Internal Revenue Code of 1954 as amended and have approved and adopted this Agreement and Plan of Reorganization; and

WHEREAS, contemporaneously with the execution and delivery of this Agreement, the Parties hereto are effecting the reorganization as hereinafter set forth pursuant to which Minerals is acquiring substantially all of the assets of Mancos for 6,905 shares of Union's common stock, being the only class of stock Union has outstanding; and

WHEREAS, it is contemplated that the shares of Union's common stock issued to Mancos as consideration for the transfer of substantially all of Mancos's Assets to Minerals (except to the extent that sales of such shares may be made to provide cash to pay persons entitled to fractional shares, to pay expenses of Mancos and to make payments to any dissenting Mancos shareholders) will then be distributed to the shareholders of Mancos according to their respective interests and that Mancos will then be dissolved pursuant to applicable state laws.

AGREEMENT

NOW, THEREFORE, in consideration of the premises and subject to the terms and conditions hereinafter set forth, Mancos, Union and Minerals hereby each agree as follows:

ARTICLE I**SALE OF ASSETS BY MANCOS**

1.01 **The Sale.** Subject to the terms and conditions of this Agreement, Minerals shall purchase and accept delivery from Mancos and Mancos shall sell and deliver to Minerals the Assets (as hereinafter defined).

1.02 **The Assets.** The Assets are all properties and rights of every name and description, real, personal, mixed, tangible and intangible, wherever situated or owned by Mancos at the time of closing hereunder, including but not by way of limitation those certain properties substantially as described in the schedules attached to and by reference made a part of instrument styled Assignment and Conveyance of Mineral Properties attached hereto as Exhibit 1, and by this reference made a part hereof for all purposes; provided, however, the term "The Assets" shall not include cash on hand, in banks (including certificates of deposit) and on deposit with third parties as of the date of closing.

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UNO/SB 2334

ARTICLE II
THE CONSIDERATION

2.01 **Consideration.** The consideration for the Assets consists of Six Thousand Nine Hundred Five shares of Union's common stock duly registered, as hereinafter provided, to be issued by Union to Mancos at the time of closing.

2.02 **Minerals Not A Successor Corporation.** When and if the transaction contemplated by this Agreement is consummated, Minerals shall have only acquired the Assets of Mancos and shall not be considered as a successor corporation to Mancos. Mancos shall remain liable for all obligations not listed in Exhibit 2 or otherwise specifically assumed by Minerals including but not limited to obligations to shareholders, including dissenting shareholders.

ARTICLE III
THE CLOSING

3.01 **Time and Place.** The Closing with respect to the transactions contemplated by this Agreement shall be held on August 31, 1978, at 10:00 A.M. Pacific Daylight Savings Time, at the offices of Union Oil Company of California, 461 South Boylston Street, Los Angeles, California 90017, or at such earlier or later time or at such other place as may be agreed upon by the Parties, such time being referred to herein as "Time of Closing."

3.02 **Instruments of Conveyance.** At the Time of Closing, Mancos shall assign, transfer and deliver to Minerals the Assets by executing and delivering the Assignment and Conveyance of Mineral Properties (Exhibit 1) and all other instruments, documents of title conveyances, bills of sale, assignments and other instruments necessary or desirable to convey, transfer and assign the Assets to Minerals.

3.03 **Issuance of Union's Common Stock.** At the time of closing, Union shall issue the shares of common stock provided for in Section 2.01 to Mancos.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF MANCOS

Mancos represents, warrants and agrees as follows:

4.01 **Corporate Existence.** Mancos is a corporation organized and existing under the laws of the State of Colorado, is authorized to hold interests and rights to mineral properties and is authorized to hold property and conduct business in all of the states in which the Assets are located.

4.02 **Corporate Powers.** Mancos has the legal power and right to enter into this Agreement and the consummation of the transactions contemplated hereby will not result in the breach of any term or condition or constitute a default under any agreement or other instrument relating to or affecting the Assets to which Mancos is a party or by which it is bound subject only to the obtaining of the consents, waivers and releases listed in the Schedule of Consents attached hereto as Exhibit 3 and by this reference made a part hereof for all purposes.

4.03 **Assets Free of Encumbrances.** The Assets are free and clear of liens, charges and encumbrances except:

A. Minor imperfections in title which do not materially affect the operation or materially detract from the value of the Assets;

B. Encumbrances arising from the terms and provisions of the various agreements relating to the properties, which agreements are described in the schedules attached to the Assignment and Conveyance of Mineral Properties (Exhibit 1).

4.04 **No Subsidiaries.** Mancos has no subsidiaries.

4.05 **No Defaults.** Mancos has not received any notice of default and does not have knowledge of any circumstances of any person intending to declare a default of any material nature under any agreements or other instruments relating to or affecting the Assets.

4.06 **No Finders' Fees.** Mancos has not incurred any obligation (contingent or otherwise) for brokers' fees or finders' fees in connection with the transactions contemplated by this Agreement.

4.07 **No Litigation.** There are no pending actions, suits or other proceedings affecting all or any part of the Assets.

4.08 **No Rights to Others.** Except for an Agreement and Plan of Reorganization with Silver Bell Industries, Inc., which is superseded by this Agreement and which will not become operative unless this Agreement is not consummated, Mancos has not granted to any person other than Union and Minerals any right (legal or equitable, direct or indirect, vested or contingent) with respect to the Assets which shall be operative at the Time of Closing and which has not been disclosed in the schedules attached to the Assignment and Conveyance of Mineral Properties (Exhibit 1).

4.09 **Correctness of Exhibits.** Each of the Exhibits referred to herein delivered by Mancos to Union pursuant to this Agreement is substantially complete and the information reported therein is correct as of the date of this Agreement.

4.10 **Compliance with Securities Laws.** When the Registration Statement referred to in Article VI or any post-effective amendments thereto shall become effective, and when the Proxy Statement referred to in Article VI or any amendment thereto shall be mailed to holders of securities of Mancos, and at all times subsequent to such effectiveness or mailing up to and including the Time of Closing, such Registration Statement and such Proxy Statement and all amendments or supplements thereto, with respect to all information set forth therein relating to Mancos and in respect of this Agreement and Plan of Reorganization will comply in all material respects with the provisions of the Securities Act of 1933 as amended (the "Securities Act"), and the Securities Exchange Act of 1934 as amended (the "Exchange Act"), and the rules and regulations of the Securities and Exchange Commission (the "SEC") thereunder and will not contain any untrue statements of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements contained therein not misleading.

4.11 **Mancos's Financial Statements.** The information included in Mancos's Financial Statements for its fiscal year ended December 31, 1977, is true and correct in all material respects and does not contain any material untrue statements of material fact or omit to state any material fact necessary to make the statements made therein not misleading.

ARTICLE V

REPRESENTATIONS AND WARRANTIES BY UNION

Union represents, warrants and agrees as follows:

5.01 **Organization, etc.** Union and each subsidiary named in Union's Annual Report on Form 10-K for the fiscal year ended December 31, 1977 (the "Union 10-K") (except for Collier Carbon and Chemical Corporation which has been merged into Union) is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation, and Minerals is a

corporation duly organized, validly existing and in good standing under the laws of the States of California.

5.02 Capital Stock of Union. As of March 31, 1978, the authorized capital stock of Union consisted of 65,000,000 shares of common stock par value \$8 $\frac{1}{3}$ per share, of which approximately 42,299,000 shares were issued and outstanding. Except for the proposed transaction with Silver Bell Industries, Inc., as of the date of this Agreement, there are no outstanding options, warrants or other rights to subscribe for or purchase from Union or any of its subsidiaries any capital stock of Union or securities convertible into or exchangeable for capital stock of Union except upon conversion of the options and other securities listed in Exhibit 4 attached hereto and by this reference made a part hereof for all purposes and except that as of March 31, 1978, less than 650,000 shares of Union's capital stock were reserved for issuance in connection with the plans listed in Exhibit 4. Such issued shares of Union are and any shares reserved for issuance pursuant to such plans or upon such exercise or conversion prior to the Time of Closing of this Agreement will be duly authorized, validly issued and outstanding, and fully paid and nonassessable.

5.03 Union's SEC Reports.

A. Union has previously furnished Mancos a true and complete copy of (i) the Union 10-K, and (ii) Union's Quarterly Report on Form 10-Q for the quarter ended March 31, 1978 (the "Union 10-Q"). The financial statements contained in the Union 10-K and the consolidated balance sheet and the statement of consolidated earnings contained in the Union 10-Q have been prepared in conformity with generally accepted accounting principles, except for information omitted in accordance with the instructions to Form 10-Q, and fairly present the financial position of Union and the results of operations of Union on a basis consistent with prior periods. The consolidated balance sheets of Union and its subsidiaries as at December 31, 1977 and 1976, contained in the Union 10-K fairly present the consolidated financial condition of Union and its subsidiaries as at the dates thereof; the related statements of consolidated earnings of Union and its subsidiaries contained therein fairly present the results of the operations thereof for the fiscal years then ended; and the consolidated summary of operations of Union and its subsidiaries contained therein fairly summarizes the operations thereof for the five fiscal years ended December 31, 1977. The consolidated balance sheets of Union and its subsidiaries as at March 31, 1978 and 1977 contained in the Union 10-Q fairly present the financial position of Union and its subsidiaries at March 31, 1978 and 1977 and the related statements of consolidated earnings of Union and its subsidiaries for the three month periods ending March 31, 1978 and 1977 contained therein fairly present the results of the operations thereof for the periods indicated, subject in each case to normal year end audit adjustments. For the purposes of this Agreement, all financial statements referred to in this Section 5.03 shall be deemed to include any notes to such financial statements.

B. Neither Union nor any of its subsidiaries or affiliates has any liabilities or obligations, either accrued, contingent or otherwise, which, individually or in the aggregate, are material to Union and its consolidated subsidiaries considered as a whole, and which have not been:

- (i) reflected in the consolidated balance sheet of Union and its subsidiaries as at December 31, 1977; or
- (ii) specifically described in any schedule furnished to Mancos in connection herewith; or
- (iii) incurred in the ordinary course of business.

Union's obligations with respect to pension liabilities are disclosed in the Union 10-K.

C. Except as set forth in Exhibit 5 attached hereto and by this reference made a part hereof for all purposes, or as described in the Union 10-K or the Union 10-Q, there are no claims against or liabilities or obligations of, or any reasonable legal basis known to Union for any claims

against or liabilities or obligations of Union or any of its subsidiaries which, individually or in the aggregate, might result in or cause any material adverse change in the consolidated financial condition or results of operations of Union and its subsidiaries.

D. Except as set forth in Exhibit 6 attached hereto and by this reference made a part hereof for all purposes or in the Union 10-K or the Union 10-Q, there has not been, occurred or arisen since December 31, 1977, whether or not in the ordinary course of business:

(i) any material adverse change in the financial condition or results of operations of Union and its subsidiaries considered as a whole, from that shown on the consolidated financial statements for the year ended December 31, 1977; or

(ii) any damage or destruction in the nature of a casualty loss, whether covered by insurance or not, materially and adversely affecting any property or business of Union or any of its subsidiaries which is material to the consolidated financial condition or results of operations of Union and its subsidiaries; or

(iii) any actual or, to the knowledge of Union, any threatened strike or other labor trouble or dispute which materially and adversely affects, or which insofar as Union knows might materially and adversely affect, the business or prospects of Union and its subsidiaries considered as a whole; or

(iv) any other event, condition or state of facts of any character (but not including general or political conditions affecting the petroleum industry or industrial companies in the United States) which materially and adversely affects, or threatens to materially and adversely affect, the results of operations or business or financial condition or prospects of Union and its subsidiaries considered as a whole.

Union and its subsidiaries have not engaged in any transaction material to Union and such subsidiaries, taken as a whole, not in the ordinary course of its business since December 31, 1977, except as set forth in such Exhibit 6.

5.04 Status of Union Common Stock. The shares of Union common stock to be issued to Mancos pursuant to this Agreement, when so issued, will be duly and validly authorized and issued, fully paid and nonassessable. The number of shares of Union common stock to be issued to Mancos in accordance with Section 2.01 shall be adjusted in the event that subsequent to the date of this Agreement but prior to the Time of Closing the outstanding shares of Union common stock shall have been changed into or exchanged for a different number or kind of share or securities through reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split or other like changes in Union capitalization, then an appropriate and proportionate adjustment shall be made in the number and kind of shares or securities to be delivered to Mancos pursuant to this Agreement, it being understood that in no event shall other than Union common stock as then constituted be issued pursuant to this Agreement.

5.05 No Breach of Statute or Contract; Governmental Authorizations; Required Consents. Neither the execution and delivery of this Agreement by Union and Minerals, nor compliance with the terms and provisions of this Agreement by Union and Minerals will conflict with or result in a breach of any of the terms, conditions or provisions of the Certificate of Incorporation or By-laws of Union or any of its subsidiaries or any judgment, order, injunction, decree, regulation or ruling of any court or governmental authority, domestic or foreign, to which Union or any of its subsidiaries is subject or of any agreement, contract or commitment to which Union or any subsidiary is a party and which is material to the financial condition or the results of operations of Union and its subsidiaries considered as a whole, or constitute a material default thereunder, or give to any others any interest or rights, including rights of termination, cancellation or acceleration, in or with respect to any of such agreements, contracts or commitments, or otherwise require the consent or approval of any person.

5.06 No Litigation or Adverse Events. There is no suit, action, legal or administrative, arbitration or other proceeding or governmental investigation, pending or as to which Union or any of its subsidiaries has received in writing any claim or assertion, which might individually or in the aggregate, materially and adversely affect the financial condition or results of operations of Union and its subsidiaries considered as a whole, except as set forth in the Union 10-K or in Exhibit 7 attached hereto and by this reference made a part hereof for all purposes.

5.07 Authorization of Agreement. The execution and delivery and, subject to requisite approval by Union, the performance of this Agreement have been duly and validly authorized and approved by the Boards of Directors of Union and Minerals and Union and Minerals have taken, or will use their best efforts to take prior to the Time of Closing, all action required by law, their respective Certificates of Incorporation and By-laws and all other action required to authorize the execution, delivery and performance of this Agreement.

5.08 Registration Statement and Proxy Statement. When the Registration Statement referred to in Article VI or any post-effective amendment thereto shall become effective, and when the Proxy Statement included therein is mailed to Mancos shareholders for the purpose of securing shareholder approval for this Agreement or any amendment or supplement thereto, and at all times subsequent to such effectiveness or mailing up to and including the Time of Closing, such Registration Statement and such Proxy Statement and all amendments or supplements thereto, with respect to all information set forth therein relating to Union and Minerals and in respect to all information set forth therein relating to this Agreement, (i) will comply in all material respects with the provisions of the Securities Act and Exchange Act, respectively, and the rules and regulations of the SEC thereunder and (ii) will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements contained therein not misleading.

5.09 Brokers' or Finders' Fees. Union has incurred no obligation (contingent or otherwise) for brokers' fees or finders' fees in connection with the transactions contemplated by this Agreement.

5.10 Report on Form 10-K. The information included in the Union 10-K previously delivered by Union to Mancos is true and correct in all material respects.

5.11 Correctness of Exhibits. Each of the Exhibits referred to herein delivered by Union to Mancos, pursuant to this Agreement, is substantially complete and the information reported therein is correct as of the date of this Agreement.

ARTICLE VI

TRANSACTIONS PRIOR TO CLOSING

6.01 Investigations of Business of Mancos and Union. Between the date of this Agreement and the Time of Closing, Union, Mancos and Minerals each agree to give the other full access to its premises, books and records for the purpose of investigating its business and the conduct thereof.

6.02 Registration Statement and Proxy Statement. Prior to the Time of Closing, Union shall prepare and file with the SEC a Registration Statement on Form S-14 under the Securities Act for the purpose of registering the shares of Union common stock to be exchanged for the Assets and shall duly comply with all applicable state securities or "Blue Sky Laws." As soon as practicable after the Registration Statement becomes effective, Mancos shall mail the Proxy Statement included in said Registration Statement to its shareholders and shall submit this Agreement to its shareholders for approval as provided by law and its Articles of Incorporation at a meeting which shall be held as soon as practicable after the effective date of the Registration Statement.

6.03 **Listing of Union Common Stock.** Union has obtained, or shall use reasonable efforts to obtain prior to the Time of Closing approval for the listing on the New York, Midwest and Pacific Stock Exchanges upon official notice of issuance of the shares of Union common stock to be exchanged for the Assets.

6.04 **Information for Registration Statement and Proxy Statement.** Mancos and Union shall each furnish to the other such data and information as the other may reasonably request for the purpose of including such data and information in the Proxy Statement or Registration Statement.

ARTICLE VII

CONDITIONS PRECEDENT TO THE CONSUMMATION OF THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT

7.01 **Conditions Applicable to All Parties.** The obligations of Union, Mancos and Minerals are conditioned upon:

A. At the Time of Closing no suit, action, or proceeding being pending or threatened before any court or other governmental agency of the Federal or any state government in which it is sought to restrain or prohibit the consummation of the transactions contemplated hereby; no such other suit, action or proceeding being pending or threatened or no liability or claim have been asserted which would be considered by any Party to be materially significant.

B. The holders of at least two-thirds ($\frac{2}{3}$) of the outstanding stock of Mancos shall have approved this Agreement in accordance with the laws of the State of Colorado, Mancos' Articles of Incorporation, and By-Laws.

C. The Registration Statement shall be effective under the Securities Act and not subject to any "stop order" or threatened stop order.

D. All legal proceedings in connection with the transactions contemplated by this Agreement being satisfactory to each Party's counsel and each Party's counsel having been furnished with such certificates or other evidence of compliance with the conditions as such counsel may reasonably request and Mancos having secured releases, waivers and consents from all of the Parties listed in the Schedule of Consents (Exhibit 3).

E. Consummation and closing of that certain Agreement and Plan of Reorganization dated May 15, 1978, pursuant to which Union and Minerals are to acquire substantially all of the assets of Silver Bell Industries, Inc.

7.02 **Additional Conditions to Mancos' Obligation.** The obligations of Mancos shall be conditioned upon the satisfactory performance or waiver of the following conditions:

A. The performance by Union and Minerals of all of their obligations and covenants hereunder.

B. The substantial accuracy at the Time of Closing of all of the representations made by Union herein.

C. Mancos shall have received from George C. Bond, Esq., General Counsel of Union, or Sam A. Snyder, Esq., Assistant General Counsel of Union, an opinion dated immediately prior to the Time of Closing in form and substance satisfactory to Mancos to the effect that:

(i) Union and each of its subsidiaries, including Minerals, is a corporation duly organized and existing and in good standing under the laws of the jurisdiction of its incorporation;

(ii) Union and each of its subsidiaries, including Minerals, has the corporate power to carry on its business as now being conducted;

(iii) The authorized capital stock of Union consists of 65,000,000 shares of common stock par value Eight and One-Third Dollars (\$8 $\frac{1}{3}$) per share, and stating the number of shares of authorized capital stock of Union which have been issued, that such issued shares have been authorized and are validly issued and outstanding, and are all fully paid and nonassessable, and stating the number of shares which at that date were held for any specific purpose;

(iv) The shares of Union common stock to be issued pursuant to this Agreement at the Time of Closing have been duly authorized and, upon issuance, will be duly and validly issued and will be fully paid and nonassessable;

(v) This Agreement has been duly executed and delivered by Union and Minerals and is a valid and binding obligation upon Union and Minerals and all corporate action by Union and Minerals required under this Agreement has been taken;

(vi) Neither the execution and delivery by Union and Minerals of this Agreement, nor compliance with the terms and provisions hereof will, to the best of the knowledge of such counsel, conflict with or result in a breach of any term, condition or provision of any judgment, order, injunction, decree, regulation or ruling of any court or governmental authority, domestic or foreign, to which Union or Minerals is subject or any material agreement, contract or commitment to which Union or Minerals is a party or by which either it is bound or constitutes a material default thereunder;

(vii) That all consents and approvals required by law, state or federal, and other actions required by law, rule or regulation have been duly taken or obtained in order to permit the consummation of the transactions contemplated by this Agreement.

It is understood that such counsel, in rendering such opinion, is entitled to rely upon the opinions of other counsel for matters relating to local law, including but not by way of limitation, state securities or Blue Sky laws.

D. That owners of not more than an aggregate of twenty percent (20%) of Mancos's outstanding stock have exercised dissenters' rights to receive the fair market value for their stock in accordance with Colorado law.

7.03 Additional Conditions to the Obligations of Union and Minerals. The obligations of Union and Minerals being conditioned upon the satisfactory performance or waiver of the following conditions:

A. The performance by Mancos of all of its obligations and covenants hereunder.

B. At the Time of Closing, the Assets shall be in the same conditions as they were on December 31, 1977, except for ordinary use and changes occurring in the ordinary course of business between that date and the Time of Closing.

C. Mancos having delivered to Union and Minerals such evidence of title to the Assets, including opinions of counsel as it may have in its files and such other title information as Union may reasonably request.

D. Union's counsel having examined title to the Assets in such detail as such counsel deems reasonably appropriate for the examination of mining title and such counsel being reasonably satisfied that subject to minor imperfections as are usual in the case of mining properties that Mancos has title to the Assets together with the right to transfer and assign the Assets to Union and

that Mancos has not created any liens, charges, encumbrances or other burdens on the Assets except those described in the schedule attached to the Assignment and Conveyance of Mineral Property.

E. Union having determined to its satisfaction that all of the representations made herein are substantially accurate in all material respects.

ARTICLE VIII

FRUSTRATION OF AGREEMENT

8.01 **Termination Prior to Closing.** In the event the transactions contemplated by this Agreement are not consummated on or before August 31, 1978 (unless such date is extended by mutual agreement of the parties), because of the non-occurrence of the conditions precedent specified in Article VII or the waiver of the condition of the Party having the right to waive such condition, then this Agreement shall terminate and, except as provided in this Article VIII, no Party shall have any further right or obligation hereunder.

8.02 **Information to be Confidential.** In the event of frustration and termination of this Agreement, all information obtained from another Party pursuant to the terms hereof shall be returned to the Party furnishing such information and all Parties agree not to disclose to any third party any confidential information obtained hereunder.

8.03 **Costs in Event of Frustration.** Each Party shall be responsible for and shall pay any and all costs incurred by it in connection with the transactions contemplated by this Agreement and shall indemnify each other Party against any and all claims with respect thereto.

ARTICLE IX

SURVIVAL OF REPRESENTATIONS AND WARRANTIES AND FURTHER ASSURANCES

9.01 **Survival of Representations and Warranties.** The representations and warranties made by the Parties herein and in the Assignment and Conveyance of Mineral Properties shall survive the Time of Closing.

9.02 **Further Assurances.** At and after the Time of Closing at any time and from time to time as long as it is authorized by law to do so, upon the request of Minerals, and at the expense of Minerals, Mancos shall execute and deliver to Minerals such further instruments of conveyance, assignment and transfer and take such further action as Minerals may request to effectively convey, assign, transfer and deliver the Assets pursuant to this Agreement.

ARTICLE X

MISCELLANEOUS

10.01 **Mancos Affiliates.** "Mancos Affiliates" means each person (other than Mancos) who, should such person resell Union common stock acquired by him as a distribution in liquidation from Mancos, may be deemed to be subject to the requirements of Paragraphs (c) and (d) of Rule 145 under the Securities Act. Mancos, in connection with its distribution of Union common stock to its shareholders, shall require such Mancos Affiliates to sign and deliver to Union a letter corresponding to the text set forth in Exhibit 8, attached hereto and by this reference made a part hereof for all purposes. Union, on direction from Mancos, shall then imprint appropriate legends on the stock certificates representing the shares to be distributed to such affiliates, imposing restrictions on the rights of resale of such shares to the extent such restrictions continue to exist at the time the shares are distributed by Mancos to Mancos Affiliates.

10.02 Allocation of Costs. The costs incurred in preparing for and consummating the transaction contemplated hereby shall be allocated as follows:

A. To Mancos:

- (i) The cost of obtaining consents and waivers.
- (ii) The cost of curing title to the Assets, if any.
- (iii) All of its own counsel and accounting fees and the cost of securing shareholder approval.

B. To Union:

- (i) The cost of preparing the Registration Statement.
- (ii) All counsel and accounting fees incurred by Union, including those relating to title examination.
- (iii) The cost of recording the documents transferring the Assets.
- (iv) All stock exchange application and listing fees associated with the common stock to be issued to Mancos hereunder.

10.03 Applicable Law. This Agreement and the legal relations between the Parties shall be governed by and construed in accordance with the law and jurisprudence of the State of California, excluding that body of law referred to as conflicts of law.

10.04 Notices. Any notices or communications required or permitted hereunder shall be sufficiently given if delivered or mailed by certified mail, postage prepaid, as follows:

To Union:

Union Oil Company of California
P.O. Box 7600
Los Angeles, California 90051
Attention: Claude S. Brinegar
Vice President

To Minerals:

Minerals Exploration Company
P.O. Box 54945
Los Angeles, California 90054
Attention: E. H. Eakland, Jr.
President

To Mancos:

The Mancos Corporation
P.O. Box 550
Rocky Ford, Colorado 81067
Attention: Earl J. Brubaker
President

Or at such addresses as hereinafter may be furnished in writing by each Party hereto to the other Party.

10.05 **Schedule of Exhibits.** The following exhibits are attached and by reference made a part of this Agreement:

Exhibit 1 — Assignment and Conveyance of Mineral Properties

Exhibit 2 — Schedule of Obligations

Exhibit 3 — Schedule of Consents

Exhibit 4 — List of Union's Stock Plans

Exhibit 5 — List of Claims against Union

Exhibit 6 — Schedule of Material Changes

Exhibit 7 — Schedule of Material Litigation

Exhibit 8 — Rule 145 Agreement

Such exhibits may be amended and corrected by the mutual agreement of the Parties.

10.06 **Headings.** The descriptive headings of the several Articles, Sections and Paragraphs of this Agreement are inserted for convenience only and do not constitute a part of this Agreement.

10.07 **Amendments.** Any and all amendments to this Agreement must be in writing and executed by all of the parties hereto.

10.08 **Counterparts.** This Agreement may be executed in several counterparts, each of which shall constitute one and the same Agreement.

IN WITNESS WHEREOF, the Parties have caused this instrument to be executed on the day and year above written.

UNION OIL COMPANY OF CALIFORNIA

Attest:

By CLAUDE S. BRINEGAR

J. R. COURTNEY

Assistant Secretary

THE MANCOS CORPORATION

Attest:

By EARL J. BRUBAKER

President

FRANK JOBE

MINERALS EXPLORATION COMPANY

Attest:

By EDWARD H. EAKLAND, JR.

J. R. COURTNEY

IV-11

UNO/SB 2344

Union Oil Company of California

Union Oil Center, Los Angeles, California 90017



Claude S. Brinegar
Senior Vice President

October 10, 1978

The Mancos Corporation
Rocky Ford, Colorado

Attention: Earl J. Brubaker
President

RE: Amendment to Agreement and
Plan of Reorganization
dated June 21, 1978

Gentlemen:

This letter, when accepted by The Mancos Corporation ("Mancos"), shall constitute an amendment to the Agreement and Plan of Reorganization dated June 21, 1978 between Union Oil Company of California, Minerals Exploration Company and Mancos, whereby the date of August 31, 1978, appearing in Article III, Section 3.01 and in Article VIII, Section 8.01 of said Agreement is deleted and the date of December 15, 1978 is hereby substituted.

If the foregoing meets with your approval, please sign the duplicate of this letter and return it to the undersigned.

Very truly yours,

UNION OIL COMPANY OF CALIFORNIA

By CLAUDE S. BRINEGAR

Claude S. Brinegar
Senior Vice President

Agreed to this 19th day of October, 1978

THE MANCOS CORPORATION

By EARL J. BRUBAKER

Earl J. Brubaker
President

MINERALS EXPLORATION COMPANY

CLAUDE S. BRINEGAR

Claude S. Brinegar
Vice President

IV-12

UNO/SB 2345

EXHIBIT 8

ATTACHED TO AND BY REFERENCE
MADE A PART OF THE AGREEMENT
AND PLAN OF REORGANIZATION
DATED THE 15th DAY OF MAY, 1978

RULE 145 AGREEMENT

Union Oil Company of California
461 South Boylston Street
Los Angeles, California 90017

Gentlemen:

I have been advised that I may be deemed an "affiliate" within the meaning of paragraph (c) of Rule 145 of the Rules and Regulations of the Securities and Exchange Commission ("SEC") under the Securities Act of 1933, as amended (the "Act"), of Silver Bell Industries, Inc., a Colorado corporation ("Silver Bell"), and might have been deemed such at the time the assets of Silver Bell were exchanged for shares of common stock, par value \$8 $\frac{1}{3}$ per share (the "Shares") of Union Oil Company of California, a California corporation ("Union"), as part of Silver Bell's Plan of Reorganization. Pursuant to the Plan of Reorganization, I will acquire the Shares.

I have been advised that the issuance of the Shares to me pursuant to the Plan of Reorganization has been registered under the Act on a registration statement on SEC Form S-14. I have also been advised that I was deemed an "affiliate" of Silver Bell and consequently any public offering or sale by me of any of the Shares will, under current law, require either (i) the further registration under the Act of the Shares to be sold or (ii) compliance with Rule 145 promulgated under the Act or (iii) the availability of another exemption from such registration.

I represent and warrant to Union that:

1. I have carefully read this letter and discussed its requirements and other applicable limitations upon the sale, transfer or other disposition of the Shares, to the extent I felt necessary, with my counsel or counsel of Silver Bell.
2. I have been informed by Union that the distribution by me of the Shares has not been registered under the Act and that the Shares must be held by me indefinitely unless (i) such distribution of the Shares has been registered under the Act, (ii) a sale of the Shares is made in conformity with the volume and other applicable limitations of paragraph (d) of Rule 145 promulgated by the SEC under the Act, or (iii) some other exemption from registration is available with respect to any such proposed sale, transfer or other disposition of the Shares.
3. I understand that Union is under no obligation to register the sale, transfer or other disposition of the Shares by me or on my behalf or to take any other action necessary in order to make compliance with an exemption from registration available.
4. I also understand that stop transfer instructions will be given to Union's transfer agents with respect to the Shares and that there will be placed on the certificates for the Shares, or any substitutions therefor, a legend stating in substance;

"The shares represented by this certificate were issued in a transaction to which Rule 145 promulgated under the Securities Act of 1933, as amended (the "Act"), applies and may only be sold in compliance with applicable requirements of Rule 145 promulgated under the Act or sold or otherwise transferred pursuant to a registration statement under the Act of an exemption from such registration."

Very truly yours,

Union agrees that promptly upon the written request of the other party hereto setting forth a proposed sale complying with the requirements of the foregoing legend and supplying such other assurances as Union may reasonably request, Union will promptly take such action as may be required to facilitate the proposed transfer, including without limitation, the giving of appropriate instructions to the transfer agent for the Union common stock.

UNION OIL COMPANY OF CALIFORNIA

By

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UNO/SB 2347

EXHIBIT 8

ATTACHED TO AND BY REFERENCE
MADE A PART OF THE AGREEMENT
AND PLAN OF REORGANIZATION
DATED THE 21st DAY OF JUNE, 1978

RULE 145 AGREEMENT

Union Oil Company of California
461 South Boylston Street
Los Angeles, California 90017

Gentlemen:

I have been advised that I may be deemed an "affiliate" within the meaning of paragraph (c) of Rule 145 of the Rules and Regulations of the Securities and Exchange Commission ("SEC") under the Securities Act of 1933, as amended (the "Act"), of The Mancos Corporation, a Colorado corporation ("Mancos"), and might have been deemed such at the time the assets of Mancos were exchanged for shares of common stock, par value \$8½ per share (the "Shares") of Union Oil Company of California, a California corporation ("Union"), as part of Mancos' Plan of Reorganization. Pursuant to the Plan of Reorganization, I will acquire the Shares.

I have been advised that the issuance of the Shares to me pursuant to the Plan of Reorganization has been registered under the Act on a registration statement on SEC Form S-14. I have also been advised that I was deemed an "affiliate" of Mancos and consequently any public offering or sale by me of any of the Shares will, under current law, require either (i) the further registration under the Act of the Shares to be sold or (ii) compliance with Rule 145 promulgated under the Act or (iii) the availability of another exemption from such registration.

I represent and warrant to Union that:

1. I have carefully read this letter and discussed its requirements and other applicable limitations upon the sale, transfer or other disposition of the Shares, to the extent I felt necessary, with my counsel or counsel of Mancos.
2. I have been informed by Union that the distribution by me of the Shares has not been registered under the Act and that the Shares must be held by me indefinitely unless (i) such distribution of the Shares has been registered under the Act, (ii) a sale of the Shares is made in conformity with the volume and other applicable limitations of paragraph (d) of Rule 145 promulgated by the SEC under the Act, or (iii) some other exemption from registration is available with respect to any such proposed sale, transfer or other disposition of the Shares.
3. I understand that Union is under no obligation to register the sale, transfer or other disposition of the Shares by me or on my behalf or to take any other action necessary in order to make compliance with an exemption from registration available.
4. I also understand that stop transfer instructions will be given to Union's transfer agents with respect to the Shares and that there will be placed on the certificates for the Shares, or any substitutions therefor, a legend stating in substance;

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UNO/SB 2348

"The shares represented by this certificate were issued in a transaction to which Rule 145 promulgated under the Securities Act of 1933, as amended (the "Act"), applies and may only be sold in compliance with applicable requirements of Rule 145 promulgated under the Act or sold or otherwise transferred pursuant to a registration statement under the Act of an exemption from such registration."

Very truly yours,

Union agrees that promptly upon the written request of the other party hereto setting forth a proposed sale complying with the requirements of the foregoing legend and supplying such other assurances as Union may reasonably request, Union will promptly take such action as may be required to facilitate the proposed transfer, including without limitation, the giving of appropriate instructions to the transfer agent for the Union common stock.

UNION OIL COMPANY OF CALIFORNIA

By

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UNO/SB 2349

COLORADO CORPORATION CODE § 7-4-123

Rights of dissenting shareholders upon sale or exchange of assets not in the usual course of business. — (1) Except as otherwise provided in this section, any shareholder has the right to dissent from any sale, lease, exchange, or other disposition referred to in section 7-5-112 (2) of all or substantially all of the property and assets, with or without goodwill, of the corporation if not made in the usual and regular course of its business, including a sale in dissolution but not including a sale pursuant to an order of a court having jurisdiction in the premises or a sale for cash on terms requiring that all or substantially all of the net proceeds of sale be distributed to the shareholders in accordance with their respective interests within one year after the date of sale. No such right to dissent shall apply to a mortgage or pledge of any or all of the property and assets of a corporation pursuant to section 7-5-112 (2).

(2) A shareholder may dissent as to less than all of the shares registered in his name. In that event, his rights shall be determined as if the shares as to which he has dissented and his other shares were registered in the names of different shareholders.

(3) Any shareholder electing to exercise his right of dissent shall file with the corporation, prior to or at the meeting of shareholders at which the proposed transaction is submitted to a vote, a written objection to such proposed transaction. If such proposal is approved by the required vote and the shareholder has not voted in favor thereof, the shareholder, within ten days after the date on which the vote was taken, may make written demand on the corporation for payment of the fair value of his shares, and if the transaction is effected, such corporation shall pay to the shareholder, upon surrender of the certificates representing such shares, the fair value thereof as of the day prior to the date on which the vote was taken approving the proposed corporate action, exclusive of any element of value arising from the expectation or accomplishment of the transaction. Any shareholder failing to make demand within the ten-day period shall be bound by the terms of the proposed transaction. Any shareholder making such demand shall thereafter be entitled only to payment as provided in this section and shall not be entitled to vote or to exercise any other rights of a shareholder.

(4) No such demand may be withdrawn unless the corporation consents thereto. If, however, such demand is withdrawn upon consent; or if the proposed transaction is abandoned or rescinded or the shareholders revoke the authority to effect such proposed transaction, or if no demand or petition for the determination of fair value by a court of competent jurisdiction has been made or filed within the time provided in this section, or if a court of competent jurisdiction determines that the shareholder is not entitled to the relief provided by this section, the right of the shareholder to be paid the fair value of his shares shall cease and his status as a shareholder shall be restored without prejudice to any corporate proceedings which may have been taken during the interim.

(5) Within thirty days after the transaction is effected, the corporation shall give written notice thereof to each dissenting shareholder who has made demand as provided in this section and shall make a written offer to each such shareholder to pay for such shares at a specified price deemed by the corporation to be the fair value thereof. Such notice and offer shall be accompanied by a balance sheet of the corporation the shares of which the dissenting shareholder holds as of the latest available date and not more than twelve months prior to the making of such offer, and a profit and loss statement of such corporation for the twelve-month period ending on the date of such balance sheet.

(6) If within fifty days after the date on which the transaction was effected the fair value of such shares is agreed upon between any dissenting shareholder and the corporation, payment therefor shall be made within ninety days after the date on which the transaction was effected upon surrender of the certificates representing such shares. Upon payment of the agreed value, the dissenting shareholder shall cease to have any interest in such shares.

(7) If within said fifty-day period a dissenting shareholder and the corporation do not so agree, the corporation, within thirty days after receipt of written demand from any dissenting shareholder given within sixty days after the date on which the transaction was effected, shall file, or at its election at anytime within such period of sixty days may file, a petition in the district court for the county or city and county in this state where the registered office of the corporation is located requesting that the fair value of such shares be determined. If the corporation fails to institute the proceedings as provided in this subsection (8), any dissenting shareholder may do so in the name of the corporation. All dissenting shareholders, except those who have previously agreed with the corporation as to the fair value of their shares, wherever residing, shall be made parties to the proceeding as an action against their shares quasi in rem. A copy of the petition shall be served on each such dissenting shareholder who is a resident of this state and shall be served by registered mail on each such dissenting shareholder who is a nonresident. Service on nonresidents shall also be made by publication as provided by law. The jurisdiction of the court shall be plenary and exclusive. All shareholders who are parties to the proceeding shall be entitled to judgment against the corporation for the amount of the fair value of their shares. The court, if it so elects, may appoint one or more persons as appraisers to receive evidence and recommend a decision on the question of fair value. The appraisers shall have such power and authority as is specified in the order of their appointment or an amendment thereof. The judgment shall be payable only upon and concurrently with the surrender to the corporation of the certificates representing such shares. Upon payment of the judgment, the dissenting shareholder shall cease to have any interest in such shares.

(8) The judgment shall include an allowance for interest, at such rate as the court determines to be fair and equitable in all the circumstances, from the date on which the vote was taken on the transaction to the date of payment.

(9) The costs and expenses of any such proceeding shall be determined by the court and assessed against the corporation, but all or any part of such costs and expenses may be apportioned and assessed as the court deems equitable against any of the dissenting shareholders who are parties to the proceeding and to whom the corporation has made an offer to pay for the shares if the court finds that the action of the shareholders in failing to accept such offer was arbitrary, vexatious, or not in good faith. Such expenses shall include reasonable compensation for and reasonable expenses of the appraisers but shall exclude the fees and expenses of counsel for and experts employed by any party; but if the fair value of the shares as determined materially exceeds the amount which the corporation offered to pay therefor or if no offer was made, the court, in its discretion, may award to any shareholder who is a party to the proceeding such sum as the court determines to be reasonable compensation for any expert employed by the shareholder in the proceeding.

(10) Within twenty days after demanding payment for his shares, each shareholder demanding payment shall submit the certificates representing his shares to the corporation for notation thereon that such demand has been made. His failure to do so, at the option of the corporation, shall terminate his rights under this section unless a court of competent jurisdiction, for good and sufficient cause shown, otherwise directs. If shares represented by a certificate on which notation has been so made are transferred, each new certificate issued therefor shall bear similar notation, together with the name of the original dissenting holder of such shares, and a transferee of such shares shall not acquire by the transfer any rights in the corporation other than those which the original dissenting shareholder had after making demand for payment of the fair value thereof.

(11) Shares acquired by a corporation pursuant to this section may be held and disposed of by a corporation as in the case of other treasury shares. (§ 7-4-123, added.)